

PUBLICATIONS
OF THE
AMERICAN ECONOMIC ASSOCIATION.

VOL. II, No. 2. }

}

SIX NUMBERS A YEAR
PRICE \$4.00 A YEAR.

HISTORICAL SKETCH
OF THE
FINANCES OF PENNSYLVANIA.

By T. K. WORTHINGTON, A. B.

With an Introduction by

RICHARD T. ELY, Ph. D.

AMERICAN ECONOMIC ASSOCIATION.

MAY, 1887.

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BALTIMORE:
FROM THE PRESS OF GUGGENHEIMER, WEIL & CO.
1887.

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INTRODUCTION.

BY RICHARD T. ELY, PH. D.

Mr. Worthington entitles his essay an historical sketch, because he wishes it to be distinctly understood that it lays claims to a no more pretentious character. He has collected notes which he hopes to utilize in a more careful and extended treatise hereafter, but which seem to me worthy of publication in their present form as "a report of progress."

Pennsylvania is a state with a peculiar financial history, and it is a rich field for the student of political economy. As soon as one begins to work it in a serious manner one comes upon fruitful veins of ore. The various states of the American union have for the most part followed the lead of the older states in New England and the South in their economic institutions with a display of so little originality that it is especially instructive to study one which has not kept so closely as others to the beaten track.

Pennsylvania well illustrates an historical evolution to which Helferich has called attention in his monograph, "*Die Allgemeine Steuerlehre*," published in the *Handbuch der Politischen Oekonomie*, edited by Schönberg. Taxes occupy a subordinate place in the revenues of a nation. Even now this appears in

the method adopted in preparing a budget wherever rational principles are followed. First an estimate is made of expenditures, then of revenues from fixed sources of income, in particular from productive property of the state or municipality, or other public body concerned; finally, direct taxes are laid at a rate which will defray the deficiency. This deficiency is now a considerable part of all the revenues of the modern state, and when the indirect taxes are considered, which are treated in a somewhat similar manner, it must be acknowledged that in most states and municipalities the revenues from taxation constitute the major portion of the receipts of government.

Formerly it was different. In the middle ages, during the infancy of the present great European powers, the state possessed property which was expected to defray all public expenses. This stood in the name of the sovereign, whose private and public functions were then separated by no sharp line of demarkation. Taxes were granted by the estates or representative powers of the realm only when convinced of the insufficiency of the ordinary and regular revenues of the sovereign to meet necessary demands on his resources. Taxes were long considered as something irregular and unusual, as is indicated by the various words used to designate them, such as aids and subsidies (*subsidium*, *adjutorium*, *petitio*, *Bede*). The sovereign requested special help in time of unusual need. Jean Bodin, in the sixteenth century, for example, speaks of taxes as an extraordinary resource of which a Christian prince should avail himself as rarely as possible. But the possessions

of the crown were wasted in wars and by bad management; were squandered by prodigal rulers, or were given to courtesans and other favorites, and their revenues decreased correspondingly. The fall of feudalism, the formation of standing armies, to be maintained at the expense of the people instead of the nobles, and the rise of the centralized modern state—all compelled our forefathers in Europe to accept taxes as regularly recurring burdens. They were, however, long a minor source of revenue, and something looked upon as merely subsidiary. But with the growing expenses of government, the sale of public property, the relinquishment of special prerogatives and the transfer of nearly all kinds of business to corporations and private parties, under the influence of the *laissez-faire* policy, taxes came to the front, and the relative importance of other sources of revenue diminished everywhere, and in some countries almost into insignificance. Now the evolution of industrial society at the present time promises to bring about a state of things which in some respects resembles our former condition. The tendency to which I allude is the proper effort, as it seems to me, of public authorities to gain possession of all natural monopolies and manage them for the benefit of the people, adopting the principles laid down by Professor Henry C. Adams in a previous monograph in this series. The acquisition of railways by Prussia, which has been so much discussed, is only one of many phenomena pointing in this direction. The construction and management of street-car lines by English municipalities, the purchase of the telegraph in England, the growing importance of state forests, under the apparent inade-

quacy of private enterprise to provide sufficient area of forests and to manage it properly, the reversion of all French railways to the nation in the coming century, the reversion of the street-car lines to the municipality of Berlin in 1911, and like reversions in other countries—all these are similar phenomena.¹

It appears very clearly, from Mr. Worthington's paper, that the people of Pennsylvania, early in this century, were opposed to taxation, and expected, in a near future, to derive the entire income of the state, —and that a very generous income—from the appropriation of natural monopolies. The idea was a sound one, but the manner in which it was attempted to put it into execution was faulty. Nevertheless, the failure of public works and public enterprises was by no means so complete, either in Pennsylvania or elsewhere, as is commonly supposed.² This is made clear in the following quotations from Mr. Worthington's essay :

“In 1810 the revenues of the state amounted to \$353,965.08. Of this sum the interest on state investments returned \$134,887.95;

¹Prussia and Bavaria are the two great modern states most conspicuous for the large proportion of their revenues derived from gainful pursuits. The percentages thus derived are 66 and 72. The net receipts from German state railways considerably more than defray the interest on the entire public state debts.

²This entire subject needs much scholarly investigation. In Georgia even a hasty examination into the public finances of that state showed me that some of the state investments and municipal undertakings were decidedly advantageous to the people. Baltimore has found its investment in Baltimore and Ohio stock decidedly profitable, while some other investments of that municipality have been a total or partial loss. In reserving twelve per centum of the gross revenues of the street-car lines, for the maintenance and improvement of public parks, Baltimore attempts, in another way, to secure for the people the natural monopolies. This subject is further discussed in my articles on corporations, now appearing in *Harper's Monthly Magazine*.

lands, \$93,644.42; taxes, \$83,658.25. The expenditure per capita was seventy-three cents, and taxes per capita were thirteen cents. * * * Before the year 1826, with the exception of the tax on bank dividends and on certain court officers, there was, with one minor exception, no state taxation whatever, except in the way of licenses.

"In 1827 the House Committee of Ways and Means reported that there had been a steady increase in the various permanent sources of revenue; that they would suffice for the general expenses of government, and that the surplus in a few years would redeem the public debt."

But the zeal of the public for profits, as the exclusive source of revenue, and the aversion to taxation under any circumstances, were unwise. To do business exclusively on borrowed capital is a speculation of a dangerous character, and this is very nearly what Pennsylvania attempted. As Mr. Worthington says, speculation and hatred of direct taxation brought that commonwealth to the verge of bankruptcy. From 1826 to 1844, while the states expended for the internal improvement fund over fifty-five millions of dollars, less than four and a half millions were raised by taxation.¹

The public works were sold, and the policy of internal improvement for Pennsylvania was abandoned. The causes of this change may be summarized as follows:

1. Speculation and financial blundering involved the state in very serious loss. As an excuse it may be said that the undertakings which occupied the state were then new and of almost unprecedented vastness; that proper methods of construction and management were not then known, and that quite as

¹The instructive diagram which Mr. Worthington has prepared gives an excellent graphical illustration of the finances of Pennsylvania, and should be consulted carefully.

serious errors and quite as great losses can be shown in the history of private corporations. This, however, is only a mitigation of offenses committed.

2. There was an absence of fixed principle, such as Prof Henry C. Adams has attempted to lay down in regard to the proper functions of the state. The policy of public authorities was, as it still is, shifting, attempting now too much, now too little.

3. The sale of the public works took place in a period characterized by the rise of private corporations and the ascendancy of the Manchester doctrine of donothingism.

4. Political corruption and the prevalence of the spoils system weakened public undertakings. It may, however, be asked whether natural monopolies, in the hands of private corporations in Pennsylvania, have been less potent political factors than they were under the management of the state. Have we any reason to suppose that political life would not be at least as pure in Pennsylvania as it is to-day, if the railways had been retained by the state, and attention had been concentrated on a reformation of the administration, instead of an attempt to reduce it to its lowest terms? This opens an interesting field of inquiry. Another pertinent question may be asked: Have those states fared better which entrusted internal improvements entirely to private corporations? Have not many of them given so much assistance to these bodies that they have become even more embarrassed financially? It is certain that private corporations were not equal to the task they assumed in railway construction, and have required aid from local political bodies, from states, and from the federal government.

5. It must be acknowledged that a division of railways, such that each state should manage its own, would hardly be a natural division of railway territory in the United States, as our states are too small and not properly situated for that. We may speculate on what would have been the outcome of a resolute attempt of the states to build and manage their own railways. Possibly under the guidance of federal legislation they might have come to some kind of a *modus vivendi* with one another, but to-day commerce and industry are not local, but national and international, and the federal government would have been obliged to construct some great through lines.

It becomes, however, more and more evident that the states were over-hasty in parting with their valuable properties, and that private enterprise has not been so great an improvement as was hoped. We are still obliged to contend with fraud, waste, favoritism in management, nepotism in appointments, and shameful public corruption. It is then natural that the reaction should take place, to which allusion has already been made. If further evidence of this reaction is needed, it is only necessary to read that excellent work in the English Citizen series, "The State in its Relation to Trade," by T. H. Farrar.¹ The most striking proof is that recent parliamentary legislation which renders it impossible for municipalities to grant charters to street car companies and electric lighting companies for more than twenty-one years, and compels them to reserve the right of repurchase at an appraised valuation for actual outlay. For obvious reasons this reaction did not begin so early in the United States, but the careful student sees

¹ MacMillan & Co., London, 1883.

abundant evidence of the fact that it has already begun. It is a most hopeful sign that the gas works of Philadelphia have been retained by the municipality, whereas if the trusts had expired ten years ago, there can be little doubt that they would have been sold or leased to private corporations.

This introduction raises many questions without settling them. Its aim is simply to point out the significance of Mr. Worthington's study and to urge others to take up similar lines of investigation.

HISTORICAL SKETCH OF THE FINANCES OF PENNSYLVANIA.

I

INTERNAL IMPROVEMENTS.

PRIVATE ENTERPRISES.

The citizens of Pennsylvania, since her earliest days, have been notable for their public spirit. As far back as the founding of the State, Pennsylvania's public men were exercised about the building of roads and bridges, and the improvement of rivers and harbors. In 1690 William Penn suggested the practicability of a water-way from a branch of the Schuylkill to a branch of the Susquehanna, which might follow a "common course" by which the Indians brought their skins to New York and East and West Jersey. The general assembly was always liberal with money-grants for local improvements, but it was not until the second decade of the last half of the eighteenth century that large schemes of internal improvements began to be agitated. In 1762 David Rittenhouse and Dr.

The library of the Pennsylvania Historical Society contains most of the public documents on which this paper is based. The set of treasury reports belonging to that institution is almost complete from the year 1804 to 1870. The canal commissioners' reports, the auditor generals' reports, and the governors' messages are either published separately, or in the house or senate journals, or in the executive documents. A nearly complete set of the enactments of the state legislature (known as the Pamphlet Laws) is in the pos-

William Smith, provost of the University of Pennsylvania, surveyed a route for a canal to connect the Susquehanna and the Schuylkill by the Swatara and Tulpehocken creeks. It has been thought that these persons had in mind a comprehensive canal system, five hundred and eighty-two miles in length, which should connect Lake Erie and the Ohio river with the Delaware. In 1769 the American Philosophical Society ordered a survey for a canal to connect Chesapeake bay with the Delaware river. By order of the provincial assembly, a route was surveyed to Pittsburg and Lake Erie. The project was considered practicable and its execution recommended whenever the public resources should warrant the undertaking. These schemes were soon put aside for matters of more absorbing interest. After the Revolution the various projects were revived, and in September 1791 a joint-stock company was incorporated by the legislature, and authorized to connect the Susquehanna and the Schuylkill "by a canal and slack-water navigation." Commissioners were appointed to receive subscriptions. When five hundred shares had been subscribed the governor of the state was empowered to incorporate the subscribers under the title "The President, Managers and Company of the Schuylkill and Susquehanna Navigation." By section seventeen of the

session of the Pennsylvania Historical Society, and also valuable files of newspapers. These have been the principal sources of the following sketch.

It is a great pleasure to acknowledge many courtesies and much valuable advice from F. D. Stone, Esq., the librarian of the Pennsylvania Historical Society. The writer was indebted in the same way to the late Lloyd P. Smith, Esq., of the Philadelphia Library. Of the newspapers of the period most extensively treated (1835 to 1845), the *Public Ledger* and the *Philadelphia Gazette* have been the most useful.

incorporating law, whenever the dividends of the company amounted to fifteen per cent. net, one per cent. was to be reserved and used, under the direction of the legislature, "for the establishment of schools, and the encouragement of the arts and sciences in one or more seminaries of learning, according to the provisions of the constitution." We shall see later how tenaciously Pennsylvania held to this idea. In April 1792 "a company was chartered for the purpose of connecting the Schuylkill and the Delaware, under the corporate title, "The President, Managers and Company of the Delaware and Schuylkill Navigation." When fifteen per cent. clear dividend was declared one per cent. was to be reserved as above, for educational purposes. When these undertakings were laid before the public a spirit of speculation was rife. Large fortunes had been made from dealings in the public lands and in United States bank stock. It was thought that canal stocks could be treated in the same way. Many subscribed who never paid, and never intended to pay, their subscriptions. Owing to the financial embarrassment of some of the chief stockholders, the failure of others to pay their subscriptions, and the misapplication of funds, both companies shortly suspended operations after expending \$440,000.

In spite of the offer of a three hundred thousand dollar subscription from the state, they remained dormant until 1811.

UNION CANAL.—In 1811 the legislature repealed the previous acts in favor of the Schuylkill and Susquehanna Navigation and the Delaware and Schuylkill Navigation, and gave their rights, interest and

privileges to a corporation entitled "The Union Canal Company of Pennsylvania." The company was authorized to raise \$340,000 by a lottery, all other lotteries being forbidden in the state. By an act of March 29th, 1819, the proceeds of the lottery were pledged as a fund to provide for the payment of six per cent. interest on the stock. In 1827 the canal was completed, and communication opened between Reading and Middletown, a distance of seventy-one miles. The total length of the canal, with its branches, was eighty-nine miles. Its course was nearly parallel to the Tulpehocken and Swatara creeks. At Middletown it connected with the Pennsylvania canal, and at Reading with the Schuylkill navigation. The estimated cost of the canal was \$1,600,000.

CHESAPEAKE AND DELAWARE CANAL.—The preliminary survey was ordered in 1764 by the American Philosophical Society. In 1804 operations were begun by expending \$100,000 on a route which was afterwards abandoned. By the refusal of the Delaware and Maryland subscribers to pay their subscriptions, the company became embarrassed about this time, and work on the canal was stopped. In 1822 the company was revived, owing to the jealousy of the enterprise of New York in the construction of the Erie canal. In a few weeks \$425,000 was subscribed. By act of March 28th, 1823, extending the charter of the Philadelphia Bank, that institution was ordered to subscribe for five hundred shares of the stock of this company. For fifteen years the dividends on the stock were to accrue to the bank, and at the end of that period the

stock was to be transferred to the commonwealth. The state of Maryland subscribed \$50,000; Delaware \$25,000, and the United States \$300,000, subsequently adding \$150,000. The canal was completed in 1827. It was about fourteen miles long, and was constructed at a cost of \$2,201,864—\$158,000 per mile. What was considered a great engineering feat at that time was performed by cutting the summit of the dividing ridge between the two bays. This cut was seventy-six feet deep and four miles long. A bridge of two hundred and twenty feet span was thrown across the cut at a height of ninety feet.

SCHUYLKILL NAVIGATION COMPANY.—The work which was done by the old Schuylkill and Delaware Canal Company was abandoned. In 1815 a new company was incorporated to construct a canal from Philadelphia to Mill creek, one of the tributaries of the Schuylkill, and from thence to Reading. The total cost was estimated at \$2,770,176.39.

LEHIGH COAL AND NAVIGATION COMPANY.—By act of March 20, 1818, Josiah White, George F. A. Hants and Erskine Hazard were authorized, with the powers of an incorporated company, to improve the Lehigh river. In 1822 they were regularly incorporated with the above title. The amount expended in construction up to 1828 was estimated at \$1,611,402.63.

THE LANCASTER TURNPIKE.—The Lancaster Turnpike was begun in the year 1792 and was finished in 1794, at an expense \$465,000. A continuous line of turnpikes was afterwards constructed, in connection with this road, which extended from Trenton, New Jersey, to Steubenville, on the Ohio river, a

distance of three hundred and forty-three miles. Between 1792 and 1828 one hundred and sixty-eight turnpike companies were incorporated. Of these one hundred and two went into operation, and constructed nearly two thousand three hundred and eighty miles of road, at an estimated cost of \$8,431,059.50. As a rule these companies were not successful as financial enterprises, though they conferred an inestimable benefit upon the farmers in the interior of the state. One writer calculates that "the reduction in the expense of transportation, added to the increased value of the lands adjacent to the great turnpikes leading from Philadelphia, Pittsburgh, Erie and Tioga, have amounted to a sum which, at the lowest estimate, exceeds the cost of constructing, not only these roads, but of all the turnpikes in the state collectively."

BRIDGE COMPANIES.—Before the year 1828 sixty-one bridge companies had been incorporated and forty-nine bridges had been constructed, at a cost of about \$2,560,000. The Schuylkill permanent bridge was erected by a company incorporated in the year 1798, at a cost of \$300,000. In 1816-17 a bridge, suspended from iron wires, was built over the falls of Schuylkill, near Philadelphia. The Lancaster bridge was composed of one arch, the cord of which was three hundred and forty-eight feet six inches. These comprise the most important works undertaken before the great outbreak of state activity in 1826. From 1791 to 1828 \$22,010,554.68 had been expended on roads, bridges and inland navigation, as follows:

Canals & railroads, including state works	\$11,019,495 18
One hundred and two turnpike roads....	8,431,059 50
Forty-nine bridges	2,560,000 00
Total.....	\$22,010,554 68

It was evident by this time that a large and extensive system of communication with the interior of the state was necessary. A glance at a map of Pennsylvania will show that the course and direction of the valleys and mountain ranges would naturally tend to throw the agricultural products of the interior out of the state. The Susquehanna and Ohio rivers drew off the produce of the soil on the west and south, and the direction of the valleys towards the northeast had the same natural tendency. The Alleghany mountains formed almost a complete barrier to communication between the eastern and western parts of the state. The topography of the state made necessary the construction of an elaborate system of internal communication. This fact, together with the speculative spirit of the time, finally resulted in the policy of constructing the internal improvements at the public expense, and, as a further consequence, state bankruptcy and a heavy burden of taxation. Between the years 1803 and 1822 the state subscribed for stock in certain enterprises as follows:

Fifty-six turnpike companies.....	\$1,861,542 00
Twelve bridge companies.....	382,000 00
Three canal & lock navigation companies	130,000 00
Total par value.....	\$2,373,542 00

THE PUBLIC IMPROVEMENT SOCIETY.—Enough had been done by the state to create a precedent and to whet the popular desire. The public clamor and demand for internal improvement received its first recognition in the society for the promotion of internal improvements, which was formed in Philadelphia in the autumn of 1824. It was composed of about fifty citizens. They subscribed one hundred

dollars each and received donations from various coal companies and other corporations. An agent was sent to Europe to enquire into the existing systems of transportation. On his return he made an elaborate report, recommending the adoption of canals.

THE CANAL CONVENTION.—In August, 1825, a canal convention was called at Harrisburg. One hundred and thirteen representatives from forty-six counties were present. The feeling in favor of the undertaking was by no means unanimous. All the members from Bedford, Cumberland, Franklin, Lancaster, Northampton, Tioga and York counties were opposed. Those representing Berks, Chester, Lebanon and Lehigh were divided. The objections urged were, that the scheme was impracticable; that the resources of the state were inadequate; that it would require oppressive taxation; and that, if completed, the advantages would be unequal in the various sections of the state. In the end the progressives were in the majority, and resolutions were passed expressing the sense of the convention in favor of undertaking, at the public expense, a system of communication from the Susquehanna to the Ohio rivers and from thence to Lake Erie. A resolution was passed affirming that the application of the resources of the state was not to be regarded as an expenditure, but rather as a beneficial investment. They did not explain how the state was to raise money to invest. Taxes were not expected, as will be seen later, therefore the state had to borrow the money before it could invest it. Another resolution was to the effect that "all local objects tending to a diffusive and unconnected application of the public means,

ought, for the present, to yield, so as to allow an undivided exertion of the public strength in this great undertaking, which is essential to its speedy and successful prosecution." On these resolutions eighty-seven voted in the affirmative and twenty-six negatively. In deference to public opinion and the advice of this respectable body, the legislature, in 1826, passed an act providing for the construction of the Pennsylvania canal at the expense of the commonwealth.

THE STATE WORKS.

THE CANAL COMMISSIONERS.—By act of 11th of April, 1825, the governor was required to appoint a board of five canal commissioners, which was increased to nine in the following year. The act of March 27, 1824, appointing a board of commissioners on internal improvements was repealed. Their duty was to examine, consider and adopt such measures as they thought necessary preparatory to the establishment of a system of communication between the eastern and western parts of the state. They were authorized to survey routes as follows: One from Philadelphia through Chester and Lancaster counties, and thence by the west branch of the Susquehanna to the Alleghany river and Pittsburg; one from Philadelphia by the Juniata to Pittsburg, and from thence to Lake Erie; one through Cumberland and Franklin counties to the Potomac river; one by the Conococheague or Monocacy and Conewago rivers to the Susquehanna; finally, they were to examine the best route through the county of Bedford to connect the route of the proposed Chesapeake and Ohio canal with

the Juniata route. They were instructed to cause accurate charts and maps to be made; to adopt and recommend proper plans, calculations and estimates. They were to recommend plans for the establishment of a canal fund and, eventually, to report to the governor of the state. The first report was presented to the governor December 23, 1826. The surveys, according to the act of April 11, 1825, were all made, with the exception of two routes; one from Philadelphia through Lancaster and Chester counties to the Susquehanna; the other to connect the line of the proposed Chesapeake and Ohio canal with the Juniata route.

THE PENNSYLVANIA CANAL.—By act of February 25, 1826, the commissioners were empowered to contract for a canal at the expense of the state, to be termed the Pennsylvania Canal. The route was to extend from the river Swatara at, or near, Middletown, to the east bank of the Susquehanna opposite the mouth of the Juniata; and from Pittsburg to the mouth of the Kiskiminitas creek; also, to construct a navigable feeder from French creek to the summit level at Conneaut lake, and to survey and locate a route from thence to lake Erie. By this same act \$300,000 was appropriated to be applied by the commissioners in executing these plans. They were to report annually.

THE INTERNAL IMPROVEMENT FUND.—On the 10th of March, 1826, William Strickland, who went abroad as the agent of the Society for the Promotion of Internal Improvements, was appointed engineer in the service of the board. The contractors and workmen began operations in August, 1825. The first step having

been taken in the great enterprise, the next was easy. In April, 1826, the Internal Improvement Fund act was passed. The secretary of the commonwealth, the auditor general, and the state treasurer were made commissioners of the fund, which was to be used for the purpose of paying interest, purchasing, or reimbursing the principal of all loans contracted for defraying the expense of constructing the Pennsylvania canal. The sources of this fund were the following: All appropriations thereto from the legislature of the state or from Congress, or donations from corporations and individuals; the state treasurer was authorized to pay to the commissioners of the fund, during the year 1826, such amounts taken from the receipts from duties on auctions as might be necessary to pay interest or loans authorized during the year; after December 1st, 1826, the dividends accruing to the state on the canal, road and bridge stock owned by the commonwealth, were to be turned over to the fund, as well as the tolls taken on the canal and the net proceeds of all escheats. This act fairly inaugurates Pennsylvania's financial disgrace. The following brief view of the working of the system undertaken by the state will demonstrate sufficiently, without need of comment, the recklessness and ignorance of the public men of that time.

COST, REVENUES AND EXPENDITURE ON THE PUBLIC WORKS.—By December, 1830, the state of the public works was as follows: Four hundred and seventeen miles of canals had been completed; five hundred and twelve and one-half miles were projected and under way; one hundred and twenty miles of railroad were

projected and under way. By the year 1835 the state had borrowed and expended for public improvements the sum of \$19,332,967.64. Up to this year the tolls taken on the various branches amounted to \$1,261,730.28, an average of \$210,288.38 per annum: a very inadequate return for the money invested, as is evident. Nevertheless it was thought that in fifteen or twenty years the revenue from the public works would pay off the entire debt contracted for their construction and afford a fund for the support of government and the public schools. With this childish lack of foresight is to be found an overbearing complacency. "It has always been one of the sources of honorable pride among the citizens of Pennsylvania, that the internal improvements, though not always of the most judicious and profitable kind, are more extensive than those of any of her sister states; that they have been spread through almost every part of her vast and fertile country, and that they have been accomplished by the joint and concurrent contributions of her liberal legislature and her public-spirited citizens."¹ Pennsylvania's citizens were, no doubt, public-spirited, and the legislature generous, but the result was in no sense a source of honorable pride. Mathew Carey says, "Every person who has at heart the honor of Pennsylvania, must feel proud that she rises to a height which has never been equalled in any part of the world; as no nation, ancient or modern, ever expended so much money, on such vast improvements *in the same space of time.*"

¹From 1822 to 1832 the total expenditure for internal improvements amounted to \$25,919,448, of which \$10,400,000 was contributed by individual subscription.—*Mathew Carey, Brief View of the Internal Improvements in Pennsylvania.*

The italics are Mr. Carey's. Generosity on borrowed money is easy and popular, but hardly a source of honest pride. In later years we notice a more humble tone.

SALE OF THE PUBLIC WORKS.—In 1840 the state had become so deeply involved, by reason of the expenditure on the public works, that bankruptcy was inevitable. There was a complete revolution of public opinion. The legislature was frequently petitioned for the sale of the public works. Always sensitive to the sound of the public voice, it hastened to obey. By the act of April 29th, 1844, the railroad extending from Philadelphia to Columbia, and the eastern division of the Pennsylvania canal, extending from Columbia to its junction with the Juniata division; the Portage railroad from Hollidaysburg to Johnstown, and the western division of the Pennsylvania canal from Johnstown to Pittsburg, were offered for sale for the sum of \$20,000,000. This amount was to form the capital stock of a company to be incorporated under the title of the Pennsylvania Canal and Railroad Company. Commissioners were appointed, who were to offer for sale the stock of this company, advertising it in the New York, Boston, Philadelphia, Baltimore, Washington, Pittsburg and Harrisburg papers. Section 30 of this act provided that the citizens of the state were to vote on the sale of the main line. At the election in October of the same year the people gave a majority of thirty thousand in favor of the sale. At the time fixed for the sale there were no bids, though the auction was held for forty days. Petitions were again sent to the legislature, but the ways and

means committee of the house reported adversely to any further action at that time. In 1854 a select committee of the senate reported that the cost, revenue and expenditure of the public works, from the date of their opening in 1830 to 1853, had been as follows:

Original cost.....	\$32,542,267 77
Running expenses.....	19,499,857 03
Interest on internal improvement loans..	35,157,796 13
Floating debt.....	1,223,429 00
Sundry appropriations.....	1,324,418 80
Total expenditure.....	\$89,747,768 73
From which deduct canal and R. R. tolls.	25,342,020 47
Total cost	\$64,405,748 26

The returns from the canal and railroad tolls, in order to realize the expectations of the founders of the system of internal improvements and the general public, must not only cover the interest paid on internal improvement loans, the expenses of conducting the works, and repay the cost of construction, but afford a surplus fund for the support of government and the maintenance of education. The revenues from canal and railroad tolls from 1830 to 1854 was \$25,342,020.47; the operating expenses for the same length of time were \$19,499,857.03, leaving a net revenue of \$5,842,163.44—an average annual revenue of \$243,423.47.¹ In 1835 the interest actually paid on the public debt amounted to \$1,219,455.69, and it steadily increased until at the date of this report (1854) it was \$2,076,288.13.

In public utterance touching the public works, we henceforward find a milder tone adopted. Instead of being a source of "honorable pride," we hear

¹From 1845 to 1855 the average net revenue was \$131,852.29 a year.

that "public opinion, correct policy, and sound morals demand a sale." The citizens of Pennsylvania found that spending borrowed money was much more glorious than repaying it.

The sale of the public works was at last effected in 1858. The authorizing act was passed on the 16th of May, 1857, and was not submitted to the people for ratification. The minimum price was \$7,500,000! The third section of the act provided that the Pennsylvania Railroad Company (incorporated April 13th, 1846), should become the purchasers. They should pay, in addition to the purchase money, the sum of \$1,500,000. The whole amount was to be paid in bonds of the said company at the rate of \$100,000 a year until 1890, when the annual payment should be \$1,000,000 until the debt was discharged.¹ Upon the execution and delivery of these bonds to the state treasurer, the Pennsylvania railroad, and the Harrisburg, Portsmouth, Mount Joy and Lancaster railroads were to be free from tonnage and freight taxes; the Pennsylvania Railroad Company was to

¹ When the Pennsylvania Railroad was incorporated in 1846, and by act of March 27th, 1848, a tax of five mills per mile was imposed on every ton of freight received at Harrisburg, Pittsburg, or intermediate points, and carried more than twenty miles. This tax was laid to prevent dangerous competition against the state works; after the sale of the public works the tax was no longer necessary. The legislature accepted a compromise proposed by the company, whereby the latter was to pay \$360,000 annually, until 1890, in commutation of the tonnage tax, on the condition that the company should make a reduction in local freight rates equal to the tax chargeable on such freight. This is one of the best bargains which the Pennsylvania Railroad Company has made with the state of Pennsylvania. The "commutation of tonnage tax" is set down in the treasury reports at \$460,000, but this includes the \$100,000 bond which the company redeems every year until 1890. (See commutation of tonnage act, P. L. 1861, p. 88.)

be released from the payment of taxes for state purposes on its capital stock, bonds, dividends, or property. The proceeds of the sale were to be paid into the sinking fund, which had been established in 1849. The canal commissioners, with a view, perhaps, rather to their own interests than the public good, were violently opposed to the sale. Believing that a sale under the above act would be unconstitutional, they began proceedings in the supreme court of the state for an injunction. The court decided that a sale under the proviso in the third section of the act of May 16th, 1857 (requiring the Pennsylvania railroad to pay \$1,500,000 more than any other bidder, and releasing the company from state taxes), was unconstitutional, and granted an injunction forbidding the Pennsylvania Railroad Company to bid for the public works on those terms.¹ Nevertheless at the time fixed by the governor the auction was held, and the Pennsylvania Railroad Company became the purchasers.² The transfer was made on July 31st, 1857.

This sale reduced the extent of canals and railroads owned by the state from seven hundred and forty-seven to three hundred and forty-four miles.³ In his annual message for 1857, Governor Pollock congratulated the people on the consummation of the sale and on their release from this distressing incubus. He further said :

¹ Report of the canal commissioners for 1857.

² For \$7,500,000. The objectionable terms were omitted, and the company paid taxes as any other corporation, with the exception of the commutation of the tonnage tax.

³ Report of the State Engineer for 1857, in Executive Documents for 1857.

"The reasons and policy that required and justified the sale of the one [portion of the public works] apply with equal force to the sale of the other. The propriety of separating the state from the care and control of the public works, is not only evident to all who have given the subject a candid and impartial consideration, but the necessity is clearly established by the history of their construction and management."

How different from the superior air of Mathew Carey, and the towering eloquence of Governor Wolfe:

"The friends of the internal improvement policy may rest satisfied that the day is not far distant, when Pennsylvania, encouraged by the success which has attended her public improvements; their continually increasing productiveness; the overflowing treasury, for which she will be indebted to the redundant revenue derived from that source; and threatened as she is, on all sides to be deprived of that commerce which the God of nature seems to have destined for her use, will, in her own defence, force the waters of Lake Erie to mingle with those of the Alleghany and the Delaware; the Ohio canal to become tributary to her own extensive improvements; the waters of the Cayuga and Seneca lakes, by means of the Elmira canal, to unite with those of the Susquehanna; and will cause the wilderness counties, drained by the improvements by which all this will be accomplished, to smile and blossom as the rose."¹

By act of April 21st, 1858, the governor was authorized to sell the balance of the public works to the Sunbury and Erie Railroad Company for the sum of \$3,500,000. The great undertaking which had cost the state between seventy-five and eighty millions of dollars was sold for \$11,000,000 on easy credit. In the following year the canal commission and the office of state engineer were abolished. The state was now freed from business interests and could devote all its energies to the reduction of a debt of over \$38,000,000, of which amount nearly every dollar was incurred by reason of the state works.²

¹Governor's Message in House Journal, 1833-4.

²Of this sum nearly one-half, \$18,166,103.80, was over due.

Without declaring against the belief that industrial enterprise is a legitimate function of the state, it may be remarked that Pennsylvania's activity in this direction was a failure for the same reasons which are brought forward at the present time against the theory of state enterprise.

There is every reason to believe that the state works in Pennsylvania, during the last sixteen years of their history, were maintained as an instrument of political corruption, which was invaluable to the political party in power.

II.

THE STATE DEBT.

THE STATE DEBT PREVIOUS TO 1844.—The funded debt was begun in 1821. Before this year the state finances were in a quiet and prosperous condition.

In 1804 the liabilities of the state were the following:

	£.	s.	d.
Bills of credit, unredeemed, issue of 1781..	3,623	12	7
Bills of credit, unredeemed, issue of 1785..	2,778	11	7
Island money.....	521	15	0
Total.....	6,923	19	2
Dollar money unredeemed.....	\$2,120	33	
Interest and principal of unfunded debt, issued from 1792 until 1804.....		540	09
Total.....	\$2,660	42	

By an act of April 4th, 1805, such outstanding loan certificates as were not presented for payment

before the second Tuesday in January, 1806, were declared forever irredeemable. In 1805 and 1806 of this indebtedness \$23,264.68 was redeemed, and the state was practically out of debt. To offset the small balance, most of which was never presented for payment, the treasury assets in 1806 amounted to \$1,431,916.70, invested in United States, bank and turnpike stock, which returned \$107,469.97 interest. For several years the state had no debt charges whatever. In 1814 \$300,000 was borrowed to pay expenses incurred by the state in the war of 1812. From 1814 to 1820, inclusive, the state borrowed \$1,230,000, of which about \$800,000 was repaid with interest. In 1821 the interest charge on the unfunded debt was \$27,824.99. With the increase of the private undertakings engaged in constructing roads, bridges and canals, the practice had arisen of encouraging them by large contributions from the state treasury. During the war of 1812 the state had built roads for the transportation of troops, and this, doubtless, suggested the great state undertakings of the next decade.¹ At any rate the practice had strengthened into a precedent, and by the year 1815 had assumed dangerous proportions. From 1815 until 1820, inclusive, the state had expended, by way of donations and subscriptions, an average amount of \$219,483.56 a year. As no provision was made for this increased expenditure it was finally decided to raise additional revenue by a funded loan. By act of April 2d, 1821 the governor was authorized to borrow \$1,000,000 at five per cent.,

¹Letter to the members of the Pennsylvania legislature by Publius, page 5.

redeemable in twenty years.¹ This raised the interest payment in 1822 to \$80,300. In the two following years there was a reduction of principal amounting to \$41,000, but after 1824 there was no reimbursement until 1835.

In 1823 a conservative committee of ways and means in the lower house regretted that Pennsylvania had been committed to a system of borrowing. They looked forward with anxiety to a time when the state should be free from debt, and emphasized the dilemma which was offered by a policy of spending more than the legitimate resources of the treasury supplied : the alternative was taxation or a state debt. Their advice was as wise as Micawber's, and their action as inconsistent. They believed "that neither our form of government, nor the habits or disposition of our citizens are calculated for either debt or taxation ; but if one or the other must be adopted, they would prefer taxes rather than debt." This was admirable enough, but when they came to recommend ways and means, they advised the passage of a law authorizing the governor to borrow \$100,000 from the Philadelphia Bank and to renew the temporary loans with the Bank of Pennsylvania as they fell

¹At this time the commonwealth owned the following stock :

Twenty-five hundred shares in the Bank of Pennsylvania, subscribed by the state on its incorporation (3 Smith's laws of Pennsylvania, page 97), at four hundred dollars per share.....	\$1,000,000 00
Twelve hundred and fifty do., subscribed in 1810....	500,000 00
Fifty-two hundred and thirty-three shares in the Philadelphia bank, at one hundred dollars per share..	523,000 00
Seventeen hundred and eight shares in the Farmers and Mechanics' Bank at fifty dollars per share....	85,400 00
Turnpike stock....	1,457,115 34
Bridge stock.....	419,000 00
	<hr/>
	\$3,984,515 34

due, and to make "such other loans as the exigencies of the state may require, * * * for any time not exceeding four years." The reason given for this course was that the scarcity of circulating medium in the interior of the state would make the collection of taxes difficult, if not impossible. For the five years following the date of this report, the finances of the state were in a prosperous condition. In 1827 the house committee of ways and means reported that there had been a steady increase in the various permanent sources of revenue, that they would suffice for the general expenses of government, and that the surplus in a few years would redeem the public debt, which had increased in 1826 to \$2,457,915.44. Of this amount \$380,000 was due in 1834, \$220,000 in 1839, \$930,000 in 1841, \$300,000 in 1846, \$150,000 in 1849, and \$160,000 (due to various county banks) was redeemable at option before 1835 or 1837. This made a total funded debt of \$2,140,000, leaving a balance of \$317,915.44, which was incurred for sundry appropriations for internal improvements, for subscriptions to turnpike and bridge stock, and the Union Canal Company, and donations to colleges, penitentiaries, etc. To offset these liabilities, the committee claimed that the vested capital of the state (bank, turnpike, and bridge stock) was worth \$4,522,134.40. This committee estimated the revenue needed for the internal improvement fund, for the coming year, at \$1,416,107.15. Of this amount they proposed to raise \$500,000 by a loan from the Bank of Pennsylvania, with which they proposed to subscribe for twelve hundred and fifty shares of the reserved stock of the bank, at par,¹ upon which \$110,000 was

¹By authority of act of Feb. 14th, 1810. P. L. 1810, p. 27.

to be raised by an advance sale. This made \$610,000. A further loan of \$500,000 was to be obtained from the Bank of Pennsylvania, at five per cent., redeemable in 1853. On this loan a premium of 3.625 per cent would be paid, "by which measure the price of the stock will be prevented from depression, and the bank will be enabled to continue to make dividends at six per cent., and will, moreover, promote the mutual interest of the state and the bank, which are so intimately blended that any measure that will benefit the one, cannot fail to benefit the other." The premiums were estimated at \$36,000, making a total of \$1,146,000 to be raised by this ingenious scheme. The balance of \$370,107.15 was to be supplied by legitimate sources of revenue; auction duties, dividends on bank stock, and a proposed tax on lottery brokers. These suggestions were never carried out, but they are recited here because they give a good idea of the methods of financiering which were popular at that time. The guiding principle was very simple: Adopt any makeshift rather than impose taxes.

Between 1827 and 1830, over \$9,000,000, including temporary loans, was borrowed. In 1830 the house committee of ways and means recommended that \$4,490,000 should be borrowed to pay off all temporary loans, and to provide for the prosecution of the public works. This recommendation was carried out, and in this year the receipts at the treasury from loans were \$5,147,634.46. The committee, in view of the rapidly increasing interest charge, promised to recommend a system of taxation which proved ridiculously inadequate. In the next report bills were presented which imposed a tax of one

mill on the dollar upon personal property not subject to county rates and levies, and an increase of one mill on the dollar on all county rates and levies; they became law by acts of March 25th, 1831.

In 1831 the funded debt amounted to \$12,512,520.48, and the interest to \$616,850. The balance of revenue, beyond ordinary expenses of government, was \$420,000, leaving a deficiency in the interest account of \$191,850. The committee of ways and means presented the above-mentioned tax bills and, in addition, an act imposing a tax upon coal, and one authorizing the canal commissioners to sell the surplus water of the canals. The coal tax was negatived in the house, on its second reading. Numerous petitions against its adoption were presented. The last measure also failed of adoption.

At this time there was an awakening to the danger of longer practicing these financial principles. Governor Wolfe, in his annual message for 1831, advised the legislature "that this mode of supplying the interest fund by premiums upon loans cannot be expected to continue, and would, under any circumstances, be too capricious and unsafe to be relied upon." How opposed the community was to legitimate sources of revenue, is evident from the governor's anxiety about the new tax laws. He assured himself that the people, when they realized that the credit of the state was in danger, would submit for a short time to the burdens of taxation. The necessity of the measure insured its justification, "but should it be otherwise, I have only to say, that the man who would prefer ephemeral popularity to the solid interests of his country, is unworthy of public confidence, and his claims to public favor are

certainly not to be envied." The tax laws of 1831 were only temporary measures. They were intended to supply an interest fund until the revenue from the public works was sufficient for this purpose, and they would have expired, by limitation, in five years, if they had not been repealed. From 1830 to 1836 the state increased its permanent debt by \$15,718,402.88, yet no one called a halt. When we review the history of that period, it is so easy to see the goal to which this course was leading, that one can hardly understand that it was not plainly in view of every citizen of the state. We feel inclined to charge everyone connected with public affairs with a childish lack of foresight. It seems so evident at the present time that the state could not go on indefinitely paying the interest on its debt with the premiums realized on new loans, that we are surprised when the governor seriously protests against such a financial method. When the wild folly of repealing the state tax laws, and chartering the United States Bank of Pennsylvania was perpetrated, we are almost convinced that it was not childishness, but wilful criminality; it closed every possible loophole from financial disgrace. But if we feel called upon to comment upon the crisis in state finance, which culminated in 1842, we must remember that it was brought about through ignorance, rather than deliberate dishonesty. Speculation and hatred of all forms of direct taxation were the causes of the downfall of Pennsylvania's credit. In addition, it was not at all realized that a state debt, sooner or later, had to be paid, and by the taxpayers. When they were rudely awakened to this truth, they were as astonished as a child when he learns that he cannot advisedly put his finger into the candle flame.

In 1836 Pennsylvania's credit was at its best, and the speculative spirit was at fever heat. The United States debt was paid, credit everywhere was abundant and large sums of money were poured into the country for investment. As early as 1833 Pennsylvania state securities bore a premium of nine and ten per cent. In 1836, on the Philadelphia stock market, Camden and Amboy Railroad stock sold up to one hundred and forty-five dollars per share, and Schuylkill Navigation at one hundred and seventy-six dollars. In April of this year United States bank stock sold for one hundred and twenty-one dollars per share; Pennsylvania five per cent. bonds for one hundred and five dollars; Bank of North America for four hundred and fifty dollars and seventy-five cents; Bank of Pennsylvania for five hundred and eighteen dollars and seventy-five cents per share, and like prices for all sound and unsound investments.

"The abundant and cheap capital, here and abroad, of 1835-36, favored all the improvement enterprises. These enterprises were, however, in their nature, investments, returns from which could not be expected for a long period. In the meantime they locked up capital. It appears that labor and capital were withdrawn for a time from agriculture, and devoted to means of transportation. Wheat and flour were imported in 1836."¹

It is hard to conceive of the feeling which existed at that time. "The ordinary and old-fashioned method of getting rich by increasing the values existing in society was abandoned as obsolete," says a writer in the *Christian Review*, for 1844.

"A man had nothing to do," he continues, "but borrow of a bank, give his note, buy up anything on which he could lay his hands, wait till the increase of the circulating medium had raised the price of his product, sell, borrow yet more on the credit which

¹Sumner's Life of Jackson, p. 321.

his first speculation had established, and repeat the process as often as the times would allow. A young man who went to any of our large cities penniless was considered a blockhead if he did not report himself worth one or two hundred thousand dollars in a few years. Men of all professions were inflated with the mania. Lawyers, physicians, judges, clergymen, were soon enrolled among the number of operators, while the corps editorial, desiring a share in the universal prosperity, puffed assiduously at every extravagant project on the equitable condition that they should receive a reasonable share in the profits."

Speculative manias remind us how irrational and dishonest communities and individuals may become. The state of things during the decade between 1830 and 1840 is too well known to justify enlargement in this connection, but we must not forget that a community which has lost its head in speculation is made up of individual knaves and fools. Pennsylvania could never have followed the course which is being briefly outlined if the public, man by man, had been imbued with strict notions of private and public morality. The state's credit was wrecked by speculation and financial ignorance. It was never intended to break faith with the state creditors, but everyone's sense of obligation was somewhat dulled by the abuse of paper money and the over extension of credit and the necessary consequences. Even so sober a critic as Judge Curtis was able, in 1842,¹ to take an almost glowing view of the situation of the defaulting states. He would not have the creditors of the state of Mississippi press their claims too harshly. The planters were generous fellows, and would lend their last dollar to a comrade and await his convenience for its return. They were, therefore, outraged at being dunned for a trifle of \$5,000,000. Judge Curtis recommended the creditors to

¹North American Review, January, 1844.

wait until the planters had cooled down and had time to realize that a public obligation could not be treated in the same chivalrous manner as a private debt. This view of the case did not commend itself to the Rev. Sidney Smith and other foreign creditors of the "petty larceny and pick-pocket states." Mississippi was the only state which needed such an amusing apology. There is no evidence that the citizens of Pennsylvania were lacking in individual responsibility, but to stimulate their sense of corporate responsibility a debt of more than \$40,000,000 was necessary. We need not be too surprised at this, because, at the present, it is very hard for a great many honest and intelligent people to realize that we collectively, as nation, state, or city, must be as honest and careful to husband our resources as we individually ought to be. The public works were undertaken, and the huge debt amassed, in answer to popular demand. The people had a perfect right to roll up this enormous debt if they were conscious that it had to be paid, but they did not realize this for a long time. They thought the state could borrow itself out of debt. With an entire absence of correct ideas of taxation, they could only have looked forward to payment from the canal tolls, or by premiums on loans made to the commonwealth or to repudiation. To the lasting honor of the people and legislators, repudiation was hardly mentioned. Of the other alternatives, one was about as substantial as the other. From 1827 to 1835 \$24,927,764 had been borrowed and expended on the public works; an average of \$3,115,970.50 a year. During the same period the canal tolls returned only \$1,260,263, or \$157,532.87 a year. From 1830 to 1835 the prem-

iums on loans averaged \$215,084. In 1835, the year before the tax laws of 1831 were repealed, and the United States Bank of Pennsylvania was chartered, the revenue from canal tolls amounted to \$684,357.77. The interest paid on the state debt for this year amounted to \$1,555,200. The ordinary revenue for 1835, deducting loans, was \$1,643,923.21; barely enough to meet the interest. In this year taxes contributed \$562,690. This was the condition of the state's finances just before the famous legislation of 1836.

THE ACT OF FEBRUARY 18TH, 1836.—The charter of the Bank of the United States expired on March 3d, 1836. In November, 1835, it was suggested that a charter should be obtained from the legislature of Pennsylvania. By act of February 18th, 1836, a charter was granted which extended the corporate existence of the bank for forty years. The institution was then known as the United States Bank of Pennsylvania. After obtaining a state charter the bank went deeply into cotton speculation, and, owing to the grossest mismanagement, failed three times in five years, namely: 1837, 1839 and 1841, when its ruin was complete. The influence of the bank on the community was pernicious from the beginning to the end of its career as a state institution. It has been charged that the charter was passed with the aid of extensive bribery, but it is impossible, as yet, to substantiate any definite charges. The bank did a great deal to corrupt the financial system of the state; in fact it precipitated the crisis of 1842, and was its immediate cause. Mr. Sumner characterizes the legislation of 1836 as follows:

The act of the Pennsylvania Legislature by which the United States Bank of Pennsylvania was chartered, is, on its face, a piece of corrupt legislation. Its corruption was addressed to the people of the state, not to private individuals. It comprised three projects in an obvious, log-rolling combination: remission of taxes, public improvements and bank charter."¹

If the corruption contained in this act was addressed to the people of the state they did not respond unanimously, for during its passage through the senate sixty-eight petitions and proceedings of meetings favoring the legislation were presented to that body, and one hundred and sixty-four were presented against the same. But the scheme was an obviously log-rolling one, as section six of the act in question shows.

"In consideration of the privileges granted by this act and in lieu of all taxes on dividends," the bank was to pay to the state \$2,000,000 at thirty days' notice on the demand of the governor. The bank was also obliged to advance on permanent loan a sum or sums amounting to \$6,000,000, in return for which the state was to issue a negotiable certificate of stock, reimbursable in 1868, bearing interest at four or five per cent. If the interest was five per cent. the bank was compelled to pay a premium of ten per cent.; if the interest was four per cent., the loan might be taken at par. Further, the bank was obliged to advance, whenever required by law, any amount not exceeding \$1,000,000 a year at four per cent. as a temporary loan. As a further consideration, the bank was to pay \$500,000 to the commonwealth on the fifteenth of June, 1836, and on the fifteenth of June annually thereafter \$100,000 for common school purposes. Moreover, the corporation

¹Sumner's *Life of Jackson*, p. 338.

was to subscribe, when demanded, to the stock of the Baltimore and Ohio Railroad \$200,000; to the Elmira and Williamsport Railroad, \$200,000; to the Monongahela Navigation Company, \$100,000; to the Cumberland Valley Railroad, \$100,000; to the Warren and Pine Grove, \$20,000, and to five turnpike companies, \$55,000, making a total liability of \$10,175,000, which was deemed an equivalent for the charter and privileges which this act conveyed. This iniquitous legislation also repealed the acts of March 21st, 1831, which provided for a state tax on personal property and an increase of the county rates and levies for the use of the commonwealth.

THE REVENUE IN 1837.—From 1836 to 1840 the bank paid, in five installments, \$3,000,000 in charter premiums. The act of February 18th, 1836, left Pennsylvania again almost taxless. In 1837 the treasury report showed an income of \$6,069,276.47. The main items were :

Temporary loans.....	\$175,000 00
Canal and railroad tolls.....	975,350 47
United States surplus revenue.....	2,867,514 78
Bank of United States premium.....	1,100,000 00
Other bank premiums.....	190,250 00
Taxes and licenses.....	437,055 75
Other revenue.....	324,105 45
Total revenue.....	\$6,069,276 47

The revenue this year was nearly doubled, owing to the distribution of the surplus revenue and the charter premium from the Bank of the United States.

UNITED STATES SURPLUS REVENUE.—The state treasurer was authorized by act of December 22d, 1836, to receive the money to which the state was

entitled under act of congress, June 23d, 1836, and to execute certificates of deposit therefor, pledging the faith of the commonwealth for its repayment. The amount with which Pennsylvania was credited was \$3,823,353. The first quarterly payment was made on January 4th, 1837, the treasury department at Washington having been duly notified that the state treasurer was authorized to receive the same. Forms of receipt and requisition for payment to the United States were drawn up, and everyone went through the farce with becoming gravity. By act of February 27th, 1837, the amounts which were originally paid by drafts on the Girard bank (\$750,000), the Moyamensing bank (\$80,838.26), the Merchants and Manufacturers' Bank, at Pittsburg (\$125,000), remained in these banks, bearing interest at the rate of five per cent. per annum. Whatever was paid to the state afterwards was ordered to be deposited with the Bank of Pennsylvania, and the Bank of Philadelphia, at the rate of six per cent per annum. All deposits were payable at thirty days' notice. The interest was to be devoted to the common school fund. Further legislation authorized the treasury to use an amount of the surplus revenue, not exceeding \$150,000, to make up a deficiency in the semi-annual interest due in February. Three payments were made to the state, amounting to \$2,867,514.78. In 1837 the state debt amounted to \$28,058,139.52, and the interest account to \$1,216,185.43. Deducting the extraordinary items of revenue, surplus and bank charter, the state's income in this year would only have been \$2,101,761.69, and the expenditure was \$4,173,940.26—not much above the average.

THE STATE WITHOUT RESOURCES.—The governor's message reported the financial condition of the commonwealth to be "most cheering." He referred to the balance in the treasury of \$2,220,135. By November 1st, 1838, this balance had been reduced to \$99,359.30. The estimated receipts, including balance, for the year ending October 31st, 1839, amounted to \$2,223,459.30. The expenditures were estimated at \$5,014,713.69, making a deficit of nearly three million dollars. The treasurer reported that all incidental revenue had been expended, and that henceforth the treasury would have to depend on its ordinary resources. The only hope was in the canal tolls, but these had already been too heavily discounted. The treasurer recommended taxation, but in a most half-hearted and apologetic way. If the legislature saw fit to adopt this method of meeting the growing deficit, he advised the exemption of the agricultural interest, which was already, he thought, sufficiently burdened with the county rates and levies, and the taxation of "stocks and money, from which a handsome revenue might be raised, without injury or embarrassment to those concerned." The committee of ways and means reported that the finances of the state necessitated a resort to taxation or limited appropriations. Reasons "sufficiently cogent" determined the committee against taxation, and, in view of the future increase of revenue from the public works, they decided in favor of borrowing. On their own showing the ordinary revenues, from 1836 to 1838, fell short of the ordinary expenditures by \$2,671,088.92, and this deficit had only been met by the lucky windfall of 1837—surplus revenue and bank bonus.

They estimated the deficit for 1839 at \$910,385.78, recommended the expenditure of \$5,000,000 on the public works, and advised that enough be borrowed to meet these various demands. The legislature, accordingly, authorized the governor to contract permanent loans amounting to \$6,154,000, in addition to temporary loans, and with these resources various obligations, amounting to \$2,204,750.08, were discharged. The debt now amounted to \$32,077,518. The actual deficit for 1839 was \$1,087,743.63; the ordinary revenue amounted to \$1,621,119.84 and the interest on the state debt to \$1,296,010.24. The total ordinary expenditure was \$2,708,863.47. On the second of July the legislature passed a resolution constituting the secretary of the commonwealth, the state treasurer, and the auditor general, a commission, on behalf of the state, to inquire whether the interest in August 1837, February 1838 and July 1839 had been paid in legal money. If payment had been made in promissory notes, or any currency of less value than legal money, the governor was authorized to draw warrants on the treasury for the payment of the difference. This resolution provided that no payment should be made to any bank in the commonwealth which did not redeem its notes in lawful money when the interest was due. We may not always be able to understand the reasons for the inordinate state pride which every one connected with the government proclaimed so loudly at this time, but the above resolution, and future financial measures, compel us to believe that it was honest and sincere.

In 1839 loans, aggregating \$6,309,750, were paid into the treasury. On two of these loans, amounting

to \$1,670,000, the premiums were only a trifle over \$2,000. At this time the credit of the state was considered by official authority to be unimpaired. The difficulty of obtaining loans was said to be due to the scarcity of money, and this partly explained the low premium which was paid. When the stock of the United States Bank was selling at one hundred and twenty-three dollars per share, and paying a dividend of eight per cent., Pennsylvania five per cent. bonds sold for ninety-eight and ninety-nine. The state and the bank had suffered losses together, but the former had retained more of public confidence than the latter. Considering the confidence with which the state's securities were regarded, and in view of the market prices of other stocks at this time, it cannot be admitted that the state credit was unimpaired, even though five per cent. was a low rate of interest in 1839. When the bank failed in October, 1839, the state was left practically without resources, owing to the repeal of the tax laws. Then, for the first time, do we find evidence of sound opinion regarding the finances of the state.

THE GOVERNOR RECOMMENDS TAXATION.—Governor Porter's message for 1840 is the first utterance worthy of a statesman or a financier. In the previous year he had been as favorable to loose expenditure and reckless borrowing as any of his predecessors. In the face of impending disaster he was the only public man who had the courage to face the crisis. In the message referred to, he reviews the financial situation and sketches the history of banking in the state and in the United States. He recommended that certain measures should be adopted which would curtail the power of the banks

to work such harm, in the future, to the interests of the community as they had in the past. Among these recommendations was an inquiry into the condition of the banks, with a view to the resumption of specie payments; a bank commission; the passage of a law compelling all the banks of the commonwealth to receive each other's notes at par as long as the respective banks continued to redeem their notes in specie; that the directors of banks should be held personally liable for the payment of notes issued under their direction; that no bank should be allowed to issue notes of a less denomination than ten dollars; that a total separation of the state from the banking institutions should take place, and that a law should be passed authorizing the sale of the stock held by the state in the various banks. He is the first public man to emphasize the fact that, if ever the dreams of the founders of the system of public improvements were to be realized, it would be from the net revenue thereof, not from the gross. From 1835 to 1839, the annual net revenue from the public works had only been \$139,697.43. In 1838 the amount received from tolls and motive power did not cover repairs and running expenses by \$378,628.07. It had been the custom to give the gross amount of tolls as if the public works yielded that revenue clear of all expenses. The governor apologized for calling attention to this fact, and hastened to assure the legislature that he was no enemy to the public works; on the contrary, he urged their completion at any cost. His advice in this respect was followed, and in this year \$4,338,310 was borrowed, and \$5,152,609.72, including interest, was paid out by the commissioners of the internal

improvement fund. Nevertheless, it is something to find a man in public life who recognized the distinction between gross and net income. The last revenue bill of the session of 1839 was sent to the governor after the legislature had adjourned, and he felt compelled to sign it. Otherwise work on the public improvements would have stopped. The usual advertisements of the loan brought no bidders, nor did personal appeals to the city banks meet with better success. The governor was no friend of the United States Bank, but he was compelled to take the loan authorized from that institution. In 1840 even that resource was gone.¹ In his report for this year the governor says:

"The question is presented to the consideration of the legislature, how is the money to be procured to pay the interest on the state debt, and to meet the loans falling due, and to defray the other necessary expenditures of the commonwealth?

* * * The sum of \$2,000,000 must be obtained for the ensuing year and perhaps an equal amount for the year following.

* * * My own deliberate opinion is, that resort to taxation, provided that it shall be so regulated as to bear with as little hardship as possible on the people, is the only possible remedy to extricate the commonwealth from the embarrassments by which we find her surrounded.

"In expressing my own opinion in favor of a resort to taxation, I do it with no considerable degree of reluctance; but it must be obvious to every citizen of the commonwealth, that his house, his farm, and his property are all pledged beyond possibility of release, to the ultimate payment of the state debt, and the interest thereon accruing, agreeably to the stipulation of the loan holders. * * * It is a reproach on the people of Pennsylvania to suppose they can be longer kept in the dark in regard to the situation in which we find them. All they want to know to insure a ready compliance with this indispensable call upon their patriotism is to know the necessity of the measure.

¹The bank had failed for the second time in October, 1839. When it failed for the last time, in 1841, the state lost \$280,000, which was on deposit.

"The time for evasion is gone; the public mind has been too long fed with miserable expedients.

"The private individual would tax his industry and his property, to the utmost, to pay off a debt and the interest upon it, that was consuming the avails of his industry and his substance. So also, it seems to me, should the representatives of a wise and judicious people. Taxation would pay the interest; it would eventually constitute a sinking fund to pay off the principal of the state debt, and should be continued till the income of the public improvements would render longer taxation unnecessary."

This part of the governor's message was referred to the committee on ways and means, which produced a report embodying ideas even more significant of a change of financial policy. Their first recommendation was their worst. They advised taxation, but as a means of maintaining the state's credit in order to be able to borrow upon favorable terms. The committee, evidently, did not regard taxation as a permanent means of raising revenue. They reverted to the policy of 1831, and, apart from sustaining the state's credit, held that taxes should only be levied until the public works returned enough to supply the needs of the state: and they were entirely right on this last point. Apart from socio-political reasons, taxation is only meant to supply such a part of the needs of a state as is not satisfied by the state's corporate resources—if such exist; if not, taxation must supply the whole revenue.¹

Before it became evident that the public works were a failure as a state enterprise, taxation only held a supplementary place in the minds of the people and legislature. We shall presently see how large a part of the revenue before 1840 had been made up from sources other than taxation. We need

¹Helferich in Schönberg's *Handbuch der Politischen Oekonomie*, vol. 2, p. 111, 1st. ed.

not be surprised to find that a committee of ways and means, even when they were face to face with bankruptcy, did not regard taxes with favor. Considering the revenue which *might* arise from the public works, they were quite right in regarding taxation as a temporary make-shift. But a Pennsylvanian always lost his common sense when the public works were mentioned, and the public men lost their wits—or pretended to—more completely than anyone else. It was one of the most marked influences of the public works, that the people were infected with an intense conviction that, in the near future, they would return enough revenue to pay the cost of their construction, with interest, to support the common schools, to provide for the expenses of government, and, in some mysterious way, to convert the state into a paradise and make her “smile and blossom as the rose.”

They were not convinced that none of these things could be and that the public welfare demanded the abandonment of state enterprises, or a more rational management of them, until it was too late to save the state's credit. However, this committee viewed the permanency of the taxation which they recommended, their advice was thoroughly sound, and ably seconded that of the governor. They held that it was “indispensable to the restoration and permanent establishment of the public credit, to create a sinking fund by appropriating an annual sum, which should be applied to the payment of the interest and extinguishment of the principal of the public debt.” They advised the withdrawal of the state from the banking institutions in which it was interested and the sale of its stock. “Govern-

ments," they said, "are instituted for certain purposes, and not as a corporate or artificial person, to follow any and every pursuit which an individual may properly pursue, and which might be profitable."

The committee went further than the governor in recommending the sale of everything pertaining to the motive power upon the state railroads, and throwing them open to individual enterprise and competition. They advised that whatever scheme of taxation might be adopted, the agricultural interest should be exempted from taxation for state purposes. The report closed with this very wise exhortation:

"And in all our future legislation let us not again rely, for the payment of any debt we may create, upon any promise, however specious, which has proved itself to be fallacious. Years may pass before we can gather from our public works sufficient revenue to pay the interest upon the money expended in their construction. Let not one additional dollar of state stock be created, to be thrown into foreign markets and sold at a depreciated value. Whenever a debt shall hereafter be made, let the legislature provide at once for its extinguishment, in principal and interest, by a tax upon the people. 'Thus the tax-gatherer will continually advise the people of the condition of the public debt, and they can always know whither they are going and may choose their own time at which to stop. They can never again be precipitated into a debt of \$34,000,000 without, during the whole period of its creation, being made clearly acquainted with the progress the state was making, with fearfully rapid strides, to a condition of financial prostration, which if not arrested, would soon bring us into a condition from which recovery would be hopeless.'"

A TAX LAW PASSED IN 1840.—The legislature was slow to respond to this fervent appeal. In June a law was passed imposing a tax of one mill on the stock of banks or other institutions making or declaring a profit; half a mill on certain personal property; a small tax on household furniture, pleasure carriages, watches, and a tax

on the salaries of officers of the state. It was estimated that these taxes would produce five or six hundred thousand dollars a year. In 1843 they brought in something over \$33,000, and in 1842, \$486,635.85. That the legislature had no idea of the seriousness of the crisis, or wilfully neglected to meet it, is evident from the fact that the expenditures in 1839 was \$6,971,490, and the revenue, not including loans, was \$1,899,551; the interest on the debt for that year was about \$1,600,000. It was simple folly or dishonesty, therefore, to introduce tax laws, which, at the highest estimate, would only produce \$600,000 a year. No matter what amount had been levied, the time was past for a creditable extrication of the state credit. The machinery for collection was imperfect; the people were averse to taxes and took advantage of every technicality to avoid payment, and returns were necessarily slow. The truth is that hardly any one really understood the condition of the state's finances. In 1844, when the people were aroused, they made a very different response to the tax laws of that year. But in 1840, after the evident failure of the new law, it was again necessary to resort to loans. By authority of various acts of this year the sum of \$3,754,372.15 was borrowed, bringing the total stock debt at the end of the year to more than \$36,000,000. The commissioners of the internal improvement fund reported that \$102,145.95 had been expended in making good to the bondholders the difference between specie and bank notes. As this honorable course was pursued with borrowed money it merits less approval than if the difference had been drawn from the pockets of the taxpayers.

THE RELIEF NOTES.—In 1841 an act was passed over the governor's veto, authorizing him to borrow a sum amounting to not more than \$3,100,000. This was one of the worst pieces of legislation enacted during this period. The banks of the commonwealth, with certain exceptions, might subscribe to the stock created by this act, and were, thereupon, authorized to issue their notes to the amount of their respective subscriptions. When a holder of these notes presented them, in amounts not less than one hundred dollars, to the bank from which they were issued, he was entitled to an order on the auditor general for a certificate of an equal amount of stock created to redeem them. The banks were entitled to receive one per cent. annual interest on these notes until they were redeemed in state stock.¹ Upon the redemption of the notes by the bank which issued them and the transfer of the stock, the bank assumed the payment of the interest at five per cent., and was thereupon released from the tax on bank dividends. If the amount of interest paid by any bank exceeded the amount due for said tax, the difference was refunded by the state treasurer.² All notes issued under provision of this act were receivable for debts due the commonwealth, and might be reissued from the treasury and by the banks, and each bank issuing them was obliged to take them in payment of debts due to it.³ These notes were issued by the authority, and upon the

¹By a resolution of June 24th, 1842, interest at six per cent. was allowed on certain of these notes.

²This law reduced the receipts from the tax on bank dividends from \$96,921.61 in 1841, to \$44,950.50 in 1842, and to \$25,529.76 in 1843.

³This clause was repealed by act of April 22nd, 1846.

credit, of the state; no provision was made for their redemption in amounts less than one hundred dollars; they were, therefore, state "bills of credit," and clearly unconstitutional.¹ This "deal" with the banks was recommended by the committee of ways and means, but their intention was to limit the power of issuing notes to the Bank of Pennsylvania, the entire issue of stock to be deposited with that institution as security for the notes. The scheme was recommended in order to prevent the state from appearing as a borrower at a time when its credit was so poor. The committee instanced, as a precedent, the issue of treasury notes by the United States in 1837.²

As was inevitable, these notes rapidly depreciated, and in 1842 were at a discount, varying from ten to twenty per cent.³ The amount originally issued was \$2,220,265, of which \$867,087 were cancelled before December 1st, 1845. In 1849 an act was passed authorizing the banks to reissue relief notes, to the amount of their respective issues of 1841 which remained uncanceled, receiving as full compensation a sum equal to two per cent. of the amount of notes issued under this act. By 1850 the amount of all relief notes in circulation was \$652,000; in 1860, \$101,213; in 1886, \$96,157, of which \$40,810 were of the old issue, and the balance of the new.

INTEREST CERTIFICATES.—The interest for February, 1842, was met, but by the first of August the treasury was without funds, the state not being able to borrow the amount of \$870,000,

¹State Treas. Report, 1848. ²Rep. Com. Ways and Means, 1841.

³In 1842 petitions were sent to the legislature from Northampton county praying that the legislature and officers of government should be paid in relief notes.

authorized by the act of July 27th, 1842. Accordingly, by authority of the same act, the state treasurer issued to the debt holders, certificates of stock, bearing interest at five per cent., for the amount of interest due, and payable on the first of August, 1843. This act also provides for the payment of a percentage of the claims of contractors and others who were engaged on the public works. These individuals were known in the annals of the state finance as "domestic creditors."¹ The county commissioners were instructed, when they collected the county rates and levies, to add a tax of one mill on the dollar on real and personal estate for the use of the commonwealth; this provision was intended to hold for one year. The governor was instructed to receive proposals for the sale of the public works, and to submit the same to the legislature. At the next interest period, February 1st, 1843, the resources of the treasury were inadequate to meet the demands upon it; provision was again made for the issue of stock to pay interest. In April a commission was appointed with authority to sell any or all of the state stock held by the commonwealth in any incorporated company. A sale was made of all the state's bank stock and other stock amounting to \$1,395,411.84.² In this year the sum of \$60,313.27 was received from the United States, resulting from the sale of public lands.

¹Up to November 30, 1842, the state was indebted to the domestic creditors \$1,191,710.23, of which amount \$597,461.78 was on account of claims prior to May 1, 1841.

²The state's bank stock, although it was sold at a heavy loss, had been a good investment, having returned an average interest, between 1821 and 1844, of 5.7 per cent. The other stock averaged, for the same term, .8 per cent. The amount of stock owned by

The revenue for 1843 was \$3,404,434.37, but in August interest was again paid, by the issue of new stock. Obligations to domestic creditors, however, amounting to \$1,261,236.78 were discharged, as a more pressing obligation, and relief notes to the amount of \$508,000 were cancelled. In 1844 the revenue fell to \$2,331,765.53, and interest was again paid in stock certificates.

ACT OF APRIL 29, 1844.—This year witnessed the introduction of radical and thorough-going measures of financial reform. The act of April 29th, 1844, was sweeping to the last degree. It declared as liable to taxation for state and county purposes, all real estate not exempted by law; all personal estate; shares of stock in incorporated companies and banks; incomes from professions, trades and occupations (except farmers); and bank capital. The act provided for a board of revenue commissioners, and for triennial assessments. It was made lawful for anyone holding certificates for interest, or for claims for certain appropriations unpaid, to deliver them up and receive in their place certificates of stock, bearing interest at five per cent. Finally, it was enacted, "that the whole amount of revenue to be raised under the provisions of this act, shall be irrevocably appropriated to the payment of the interest on the public debt; and the said appropriation shall not be withdrawn or repealed by any general words or repealing clauses, in any appropriation bill or other

the state at the time of the sale, was \$6,194,380.56. The par value of the amount sold was \$4,191,783. The par value of the bank stock sold was \$2,108,700, which brought \$1,216,453.75. The stock of the Farmers and Mechanics Bank was the only stock which sold for its par value.

act." While the reconstruction of the finances dates from this act, it came too late to save the honor and credit of the state. Between February 1st and November 28th, 1844, about \$500,000 of the state stock had been transferred from foreign to domestic holders.¹

REV. SIDNEY SMITH'S LETTER.—Sidney Smith's famous letter to Congress deserves quoting, in part, as evidence of the feeling which existed abroad towards the defaulting states. His honest indignation was mainly directed against Pennsylvania:

"Your petitioner," he writes, "lent to the state of Pennsylvania a sum of money, for the purpose of some public improvements. The amount, though small, is to him important, and is a saving from a life income, made with difficulty and privation. If their refusal to pay (from which a very large number of English families are suffering) had been the result of war, produced by the unjust aggression of powerful enemies; if it had arisen from civil discord; if it had proceeded from an improvident application of means in the first years of self-government; if it were the act of a poor state, struggling against the barrenness of nature—every friend of America would have been contented to wait for better times; but the fraud is committed in profound peace, by Pennsylvania, the richest state in the Union, after the wise investment of the borrowed money in roads and canals, of which the repudiators are every day reaping the advantage. It is an act of bad faith which (all its circumstances considered) has no parallel and no excuse."²

This letter produced a great sensation. The sensitiveness of the American people was keenly touched by Sidney Smith's incisive pen. The press led in abusing the author; an air of jaunty bravado was assumed, and the general impression seemed to be that we had done a smart thing in having "tricked and pillaged Europe." The restorative effects of

¹Niles Register, vol. lxvii, p. 240.

²The letter may be found in McCulloch's Dictionary of Commerce, p. 628.

the act of April 29th, 1844, were not felt until the following year. The taxpayers responded nobly. Some counties went so far as to return their quota before it was due. In this year no interest was paid on the funded debt, but the money applicable to this purpose was expended in payments to domestic creditors, the cancellation of relief notes, repairs on the public works and the like.

THE FINANCES OF THE STATE SINCE 1844.

A REVIEW OF THE STATE'S REVENUE.— Before proceeding to the examination of the period following the date of reconstruction, it would be well to cast a hasty glance at the various items which composed the state's revenue before that year.

Before the year 1831 there were hardly any taxes for state purposes which were not of the nature of licenses. For many years the expenses of the simple administrative machinery were so moderate that the revenue from the state investments were nearly sufficient to make up the required amount. After the revolution, Pennsylvania's quota of the war debt was £420,297 15s. This was apportioned amongst the different counties. The county commissioners were directed to quota the townships, and the assessors settled the tax with the freeholders. This contribution did not call into being a system of state taxation since the county system was so well organized that it answered the purpose.

In 1810 the revenue of the state amounted to \$353,965.08. Of this sum the interest on state investments returned \$134,867.97, lands \$93,644.42, taxes \$83,658.25. The expenditure per capita was seventy-three cents and taxes per capita were thirteen cents.

In 1814 a tax was laid on bank dividends, but for the purpose of restraining existing abuses rather than to increase the revenue. In 1820 the revenue had increased to \$440,801.55; the interest on state investments to \$127,027; taxes to \$122,272.33; sale of lands, fees, etc., had decreased to \$24,182.55. The per capita expenditure was forty-three cents, and taxes had decreased to eleven cents per capita. Before the year 1826, with the exception of the tax on bank dividends and on certain court officers, there was no taxation whatever except in the way of licenses. In 1826 those who paid licenses were, dealers in foreign merchandise, tavern keepers, and auctioneers. Auctioneers also paid a duty on their sales. In this year the tax on collateral inheritances was imposed and it is still in existence. The proceeds were devoted to the internal improvement fund. In 1830 the revenue was \$6,331,449.31, of which \$5,487,000 had been raised by loans. The per capita expenditure had risen to four dollars and seventy-one cents, and taxes were only twenty-two cents per capita.

In 1831 a law was passed which, so far as it taxed personal property, was the parent of the present law. Ground rents, moneys at interest, debts due from solvent debtors, mortgages and corporation stocks on which dividends were paid, public stocks, except those issued by the state, and pleasure carriages were to be taxed one mill on the dollar annually for five years. This tax was collected by the county officers at a compensation of one per cent. of the amount paid over to the state treasurer. The proceeds of this were vested in the commissioners of the internal improvement fund. At the same time an act was

passed directing the county commissioners to increase the county rates and levies, by the amount of one mill on the dollar, upon the adjusted valuation of all real and personal property subject by law to local taxation, and to pay the additional amount raised in this manner for the use of the commonwealth. This act was also limited to five years.

In 1835 the increase of the county rates and levies brought \$188,019.94 into the treasury and the state tax on personal property, \$20,943.10. At this time, with an annual per capita expenditure of about two dollars and ninety cents, the average tax paid for each person was only thirty-eight cents; about fifty per cent. of the income of the state was borrowed money. In 1836, after the repeal of the wise, though insufficient, legislation of 1831, the treasury was thrown upon the welcome resource of United States surplus and bank bonuses. In 1840 the tax on bank dividends, collateral inheritances, writs and certain officers, were the only source of revenue besides licenses which were contributed by the people. The per capita expenditure in this year was four dollars and twenty-two cents, and the amount of taxes paid averaged twenty-four cents for each individual. The act of June 11th, 1840, has been sufficiently mentioned. In 1843, when the state had been defaulting for more than a year, the population was about 1,724,033; the valuation of taxable property, under the laws taxing personal property, \$411,343,170; the tax assessed \$968,708.40 (two dollars and seventy-six cents to each taxable, fifty-six cents to each inhabitant); the amount collected, \$553,911.38. In 1844 Judge Curtis estimated the value of annual products of the state at the sum of \$200,000,000.

AN ABSTRACT OF THE TREASURY OPERATIONS.—The following table gives an abstract of the principal treasury operations from 1826 to 1844:

REVENUE.		EXPENDITURE.	
Licenses.....	\$4,078,623 24	Expenses of gov- ernment.....	\$4,650,393 48
Taxes.....	4,421,562 88	Subscript'n to turn- pike and other stock.....	1,842,414 38
Loans & premiums on ditto.....	43,400,781 85	Internal improve- m't fund, includ- ing int. paid.....	55,066,519 53
Premiums on bank charters.....	3,658,193 27	Loans repaid.....	4,010,719 88
Surplus rev. from United States...	2,867,514 78	Militia & pensions.	1,164,227 14
Sale of state invest- ments.....	1,395,411 84	Common schools..	2,620,375 19
Dividends on state investments....	2,691,774 59	Education & chari- ties.....	647,779 54
Canal and railroad tolls.....	9,286,644 26	Penitentiaries, etc.	819,950 99
Other revenue....	2,416,188 26	Domestic creditors	1,470,826 21
	<u>\$74,216,694 97</u>	Canc'd relief notes	508,000 00
		Other expenditure	1,415,488 63
			<u>\$74,216,694 97</u>

From this table it is calculated that, from the beginning of internal improvements, in 1826, to the regeneration of the state credit, in 1844, the state raised 58.6 per cent. of its revenue by loans, and only 11.4 per cent. by taxation, and, of this vast expenditure, 76.8 per cent. was employed in constructing the public works, and in paying interest on the loans contracted therefor.

From 1840 to 1846, inclusive, the amount received in taxes and licenses was as follows :

1840.....	\$438,752 50
1841.....	422,801 53
1842.....	875,059 89
1843.....	396,155 25
1844.....	1,113,316 67
1845.....	1,811,920 23
1846.....	2,097,766 52.

Every economy was enforced to bring down expenses. The expenses of government and administration decreased steadily from \$412,751, in 1839, to \$200,113, in 1847.

In 1845 the payment of interest was resumed, and has not since that time been interrupted. The revenue from regular and legitimate sources, at this time, amounted to over \$3,000,000. The annual interest charge was \$1,789,990.30. Since 1840 the debt had increased from over \$33,000,000 (not including surplus revenue "owing" to the United States) to \$40,703,866, which was composed as follows :

Permanent loans at five per cent. interest.....	\$32,881,662 01
Permanent loans at four and one-half per cent. int...	200,000 00
Permanent loans at six per cent. interest.....	1,730,653 37
Interest certificates for August, 1842, February and August, 1844, at six per cent.....	2,606,333 03
Interest certificates for February and August, 1844, at five per cent.....	1,847,040 48
Relief notes (act of May 4th, 1841).....	1,438,178 00
	<hr/>
	\$40,703,866 89

It will be observed that the hand-to-mouth policy added \$4,453,373.51, in the way of accrued interest, to the public debt, and interest on this interest to the amount of nearly \$400,000. We do not feel called upon to characterize a government and a community which preferred to compound its interest for over two years rather than take active and efficient steps to diminish it, and which considered the premiums on its recklessly contracted loans as a legitimate source of revenue. No comment could be more incisive than the bare facts and figures.

THE ACT OF APRIL 16, 1845.—Certain legislation of the year 1845 caused much dissatisfaction. The term repudiation was even applied to it. By

act of April 16, 1845, the Governor was authorized to issue stock maturing in 1855, at the rate of five per cent., to all who wished to return the interest certificates of 1842, 1843 and 1844. Interest on these certificates was to be computed at the rate of four and a-half per cent. per annum, and the amount thereof added to the principal, and state stock issued for the whole amount as aforesaid. The interest certificates issued in 1842 and 1843 bore six per cent., those in 1844 five per cent.¹ Pursuant to the above-mentioned act of 1845, interest certificates to the amount of \$2,481,396.77 were delivered up by December 3, 1845, and new stock issued for them, and for the interest due on them, calculated at the rate of four and a-half per cent. The discussion of this measure should be preceded by the statement that the delivery of the interest certificates was, in no sense, compulsory, although many who returned certificates under the act thought differently. The state treasurer in his report for 1845 made the following remarkable defence of this proceeding:

"Some complaints have reached me from such sources as seem to require some notice from me, that this *change in the rate of interest* is a violation of an agreement, or contract, upon the part of the state. But it is evident that there was no such agreement on the faith of which any credit was given. The commonwealth found herself at the periods named, by a combination of circumstances unnecessary now to state, but which may happen to any government, in a situation of inability to pay the interest due. *There was no contract* when this interest fell due, that six per cent. should be paid upon that interest."

This statement seems the more remarkable from the fact that it is contradictory to a statement in his report, fourteen lines above the words first italicized, that certificates were issued, for interest due, bearing

¹P. L. 1842, page 443; 1844, page 376.

interest at five and six per cent. He goes on to say: "The certificates were issued as evidence of a floating debt, and now the commonwealth offers to make them a part of the funded debt, to which she adds four and a half per cent.—thus compounding the interest and giving five per cent. interest on the aggregate amount." This uncandid and contradictory defence shrinks into nothing before the vigorous invective of the author of "*Pennsylvania as a Borrower*,"¹ who never spoke in uncertain language. "Failing to pay interest on money borrowed," he says, "she gave bonds for that interest, promising to pay the old interest at a fixed date, and to pay five or six per cent. interest on the interest already overdue. She did neither. She compelled a surrender of her contracts and their evidences, and then forced the holders to take four and a half per cent." The state compelled the surrender of the interest certificates in this sense: Section thirty-eight of the act of April 16th, above mentioned, reads: "that at any time within nine months after the passage of this act, it shall be *lawful* for any person, or persons, or bodies corporate, on delivering up to the auditor general any certificates for the payment of interest on the funded debt," etc. The persons who surrendered their certificates did so voluntarily, knowing that interest on them would be lowered to four and a half per cent., and the state in no way compelled a surrender of her contracts and their evidences, nor did she force the holders to take four and a half per cent.

Mr. Wallace, continuing, his remarks, says of the proceeding: "It can never be spoken of otherwise than as an act of repudiation by those who speak

¹John M. Wallace, Esq.

intelligently of it at all. It is a damned spot, and all the perfumes of Arabia will not sweeten the honor of this Commonwealth." If it was repudiation it may be doubted whether repudiation so petty necessitated denunciation so violent. Mr. Wallace's paper appeared in 1863, but time did not soften his judgment. He doubtless followed contemporary opinion too closely.

An editorial in the *Public Ledger* for April 26, 1845, says:

"It may be said that this act does not deprive holders of these certificates from any of the privileges which they now enjoy, and that it is not obligatory on them to fund them as pointed out. The foot-pad who, armed, meets the traveler on the highway, and offers to leave him his papers, on condition of his surrendering his cash and valuables, by the same class of reasons could be shown to be equally liberal. The legislature promises to pay at a certain time, at a certain rate of interest, and neglects year after year to do it, or even to recognize it as other debts. This *honest* body, which is above the reach of compulsory process, then say to the neglected certificate holders, take four and a-half per cent. and we will recognize your claim—otherwise occupy your present neglected position. . . . If there was any justice done to the holders of these certificates by funding them, it was no more than justice to do so at the rate of computation declared upon their face. . . . It is a small business, and one that redounds little to the credit of its authors or to the state."

It was truly a small business, though it was not repudiation. The attacks upon the state's credit are as unfair as the above quoted defence is uncandid. The truth is, that owing to bad management and a popular dislike to taxation, the state was unable for a certain time to meet its interest except by the issue of stock on which it promised to pay five and six per cent. interest. The greater part of these interest certificates were issued because it seemed more equitable to recognize the claims of contractors and workmen before the claims of holders of state stock.

The cancellation of relief notes was an urgent public necessity, and rightly preceded the resumption of interest payments.

When the interest payments were resumed the state was practicing the most rigid economy, and unwisely, it must be confessed, attempted to cut down the rate of interest on its interest certificates. It gave the option to those who wished to invest their arrears of interest, of taking a ten year certificate of stock at five per cent., on the condition that interest on the arrears should be calculated at four and a half per cent., or holders of interest certificates might redeem them when they matured, at the guaranteed rate of interest.¹ It was short-sighted economy on the part of the state, but it was not repudiation, and the fact that a large number of certificates were funded under said law of 1845, does not sustain the charge of repudiation. There would never have been any state stock issued to these howling capitalists if they had been willing to submit to taxation. Having taken pecuniary advantage of their own lack of patriotism; having received interest from, instead of paying taxes to, the state, they began to cry out when she made an honest effort to restore her credit.

In this same year a small tax was laid on the state loans.² It was a measure perhaps not altogether to be recommended, considering that the state was just returning to cash interest payments, but it did not merit the vigorous denunciation of Mr. Wallace, who charged the state with breach of contract. The right of a state to tax its own loans has been a matter of lengthy discussion, and the legal mind natur-

¹The interest certificates issued in August, 1842, were payable in August, 1843; those of 1843, in August, 1846; those of 1844, in August, 1846. ²P. L. 1845, page 533.

ally over emphasizes the state as a contracting power.¹ The state as a party to a contract, and the state as the possessor of the sovereign power of taxation, acts in different capacities, and even when it guarantees a specific rate of interest, and then taxes the bondholder, it does not tax him as a holder of state obligations, but as an individual, a part of whose income is easily accessible to the tax assessors. The same is true of taxes on the salaries of public officers.² From an economic point of view a tax on the holders of state securities is an admirable one, as it is sure, easily collected, and falls on moneyed people. The particular tax in question was not burdensome, as it amounted to only one-twentieth of one per cent. From the fact that the state withheld the amount of the tax when it paid interest, it seemed to the thoughtless as if it paid less than it had guaranteed. But the state had given no guarantee that it would not tax the income of its bondholders—no matter whence they derived it. By deducting the tax when the interest was paid, the state economized as to its administrative machinery, and saved the time of those tax-payers who held state securities. To avoid scandal, it might have been worth while to have paid interest at one desk and have received the tax at another.³

¹Purdon's Digest of the Laws of Pennsylvania, volume ii, page 1611 (6). Ed. 1885.

²Helferich on the general theory of taxation in Schönberg's Handbuch, volume ii, page 116. Helferich holds that there is no breach of contract unless the state has expressly exempted the creditors and public officers from taxation.

³This tax caused so much dissatisfaction that, with the exception of \$400,000, which bore six per cent. interest, (State Treas. Rep., 1866), no state loans were taxed after this time. In 1867 (P. L., page 261) all loans not overdue were exempted from state, municipal or local taxation after February 1.

Notwithstanding the popular outcry raised by the above related legislation of 1845, the credit of the state was restored before the year expired. In August, of 1845, we hear of a great demand, by cautious investors, for Pennsylvania loans as permanent investments. Pennsylvania fives were at \$77.50 on the sixth of this month.^{1 2}

From 1845 to 1849 the course of the state's finances was uneventful. The revenue was sufficient to meet all expenses, the chief item being an interest charge of over \$2,000,000 annually. The two principal sources of revenue, the tax on real and personal estate, and canal and railroad tolls, were nearly sufficient to meet the interest. Although the debt, which was \$40,986,393.22, had been reduced by only about \$475,000 up to 1849, the revenue had increased

¹*Public Ledger*, August 6, 1845.

²The following table, selected from *Niles Register*, volume lxxv, page 69, gives the variation of important stocks in Philadelphia from 1836 to 1843:

	1836.	1837.	1838.	1839.	1840.	1841.	1842.	1843.
Penna. 5s	105	100	99	100	90	81	33	39½
U. S. Bank.....	121	118½	118	113	79½	20	2½	1½
Bank of N. A.....	450½	445	404	397	390	.....	165	275½
Bank of Penna.....	518½	515	485	.....	404	.....	51	112½
Girard Bank.....	67½	55	48½	49½	37½	31½	2	1½
Bank of Kentucky....	98½	79½	78	83	52	53	50	46½
Schuylkill Nav.....	159	155	160	119	80	66½	31	20
Lehigh Coal & Nav.Co.	79½	75	86	87	50	.....	8	.....
Camden & Amboy R.R.	137½	130	120	125½	120	88	70	63½
Union Bank of Tenn..	103	90	90	82½	64	58	26	39
Planters' Bank of Ten.	106½	96	90	.....	71½	73	35	39

In December, 1844, Pennsylvania 5s sold for 73½; Lehigh Navigation, 66½. In January, 1845, United States 5s sold in New York for 104; Ohio 6s, for 98; Kentucky 6s, 100½; Illinois 6s, 36; Indiana bonds, 35; New York 7s, 115½; United States 6s, 114½; Tennessee 5s, 83½.

so rapidly that a sinking fund became possible and expedient, so it was established in this year.¹

THE SINKING FUND OF 1849.—The same officers of the state who were members of the internal improvement fund commission were placed in charge of the sinking fund: the secretary of the commonwealth, the auditor general, and the state treasurer. One commission was the outgrowth of the other, or, rather, they were identical, except that the commissioners of the sinking fund of 1849 had no authority to pay interest on the debt, but were confined to accumulating revenue for its extinguishment. One commission was very successful in accumulating the debt, the other, in its revised form, has been equally successful in reducing it. The commissioners were authorized to apply such revenues as were appropriated to them for the purchase of the state debt, at its market price, if it did not exceed the par value. The revenues at first devoted to this purpose were the collateral inheritance tax, which had also been pledged to the internal improvement fund, taxes on charters, and various licenses. The commissioners were authorized to receive the interest due on the debt purchased and held by them, which interest was also to be applied to the purchase of the debt. On the first Monday in September, 1851, and every third year thereafter, the commissioners were to certify to the governor the amount of the debt held by them, and he would then direct the certificates representing the same to be canceled, and after cancellation issue a proclamation declaring that so much of the debt had been extinguished. In 1852,

¹P. L., 1849, page 570.

and every third year thereafter, the commissioners were to report the amount of the debt cancelled to the legislature, and what reduction of taxation might be made. Balances were to be invested in order to form an accumulating fund.

Hereafter, the financial history of the state is to be traced in the operations of the sinking fund. It needs fewer words to tell how the debt has been reduced, than to give an idea of its accumulation. By an act of April 19, 1853, the commissioners of the sinking fund were practically restricted to the cancellation of relief notes.

By the first of January, 1856, they redeemed \$1,586,672.29 of the public debt, including relief notes to the amount of \$416,390.¹ The last triennial report of the old sinking fund commission, presented in 1858, showed that the debt had been reduced by \$1,042,757.64, viz.: relief notes, \$402,940; temporary loans, \$564,000; state stock, five and six per cent., \$75,817.64. The state had been able to borrow \$5,000,000 in 1852, which had been used in redeeming six per cent. loans, interest certificates, and certificates to domestic creditors, and these operations added more than \$1,000,000 to the debt. The modest efforts of the sinking fund commissioners had not, therefore, made much impression upon the total.

It was necessary to have a more efficient arrangement, so a new sinking fund law was passed in 1858.²

THE SINKING FUND OF 1858. — This commission had the same power of paying interest on the

¹Rep. Com. Sinking Fund in Leg. Doc., 1856, page 337.

²P. L., 1858, page 468. Also see amendment to the constitution of 1838, adopted in 1857, Art. I, Sec. 4.

debt which was given to the commissioners of the internal improvement fund. It was necessary that they should have a regular revenue at their disposal, therefore the following revenues were vested in them: The tax on bank dividends and bank charters; all corporation taxes; all licenses, auction commissions and duties; taxes on the recording of various legal papers; on public officers and others, on foreign insurance agencies; enrollment of laws; money from the sale of pamphlet laws; all fines, forfeitures and penalties; revenues from the public lands; excess of militia tax over expenditure; millers' tax; tax on loans or moneys at interest; tonnage tax; escheats; collateral inheritance tax; accrued interest, refunded cash, and all gifts, grants and bequests, with the revenue arising from them. These included all the principal sources of revenue, except the tax on real and personal estate, which was reserved to meet current expenses.

In 1873 the sinking fund was made permanent by Article IX, section 2, of the new Constitution. In 1876 it was enacted that, beside the revenue from the sale of any stocks owned by the commonwealth, or from any public works, the sinking fund should consist of two-thirds of the tax on the capital of corporations. The balance of this tax and all other revenue constitute the general revenue fund. At the present one-half of this tax goes to the sinking fund.

In 1858 the public works were sold, and after that time little remains to be said, except that the reduction of the debt has been going on steadily and uneventfully. During the war of secession it was again increased to over \$40,000,000. From 1850 to 1860 the reduction was at the rate of \$392,922.73 per

annum. In 1861 a war loan was negotiated, and a special tax of half a mill on the dollar was assessed to pay the interest on the loan.

REFUNDING OPERATIONS.—On December 1st, 1867, the loans overdue amounted to more than \$23,000,000. The state treasurer recommended that these should at once be paid off, and in the following year \$23,000,000 was borrowed for that purpose. By this refunding operation, the overdue debt was reduced to \$2,914,274.43. The total debt in 1867 was \$37,699,916.72, of which \$22,208,879.29 was reimbursable prior to 1880, although only \$6,364,596.16 was actually redeemed before that year. The reduction of the debt from 1860 to 1870 was at the rate of \$636,4591.16 per annum—an increase of fifty per cent. over the reduction of the previous decade. To meet the loans, at six per cent., maturing in 1877, which had been contracted in 1867 for the payment of overdue stock, a refunding loan was created amounting to \$8,000,000, bearing interest at five per cent., and payable after fifteen and within twenty-five years. In addition, ten series of registered loans and two thirty-year loans were issued, bearing interest at three and a-half and four per cent., amounting altogether to \$9,450,010. The first of the series matured in 1884; the last falls due in 1892.

The debt on December 1st, 1886, was \$17,258,982.28, of which \$147,882.28 bore no interest, and consisted of relief notes, interest certificates, bonds upon which interest had ceased, etc. The interest charge for the year was \$770,176.50. On March 19th, 1887, Pennsylvania 5s were quoted at 117, the old 4s at 109 and the new 4s at 120, and no offerings.

III.

TAXATION.

THE COUNTY SYSTEM AND THE STATE SYSTEM.

A natural consequence of the preceding pages is an account of the present system of state taxation in Pennsylvania. In the first attempt to levy a general state tax, the county system was utilized. It seems likely, at the present time, that much of the old importance of this system will be restored. So much attention has been paid in Pennsylvania to the corporation taxes, that personal property has enjoyed, for a long time, a far too great exemption. This was remedied to some extent, by the law of June 30th, 1885, which materially increased the duties of county officers. Personal taxes are, to a large extent, collected by means of the county machinery, and no account of taxation in Pennsylvania would have any pretence to completeness if it did not say something about the county system.

Local taxation in Pennsylvania is particularly susceptible to historical treatment.¹ If we follow back the history of finance and taxation far enough into the past we find that the English system was introduced upon the conquest of the right bank of the Delaware by the English in 1664.

In order to complete the historical investigation of taxation with any degree of thoroughness, it would

¹The township and the borough have been studied by Dr. E. R. L. Gould, "Local Government in Pennsylvania" (Johns Hopkins University Studies in Historical and Political Science, I, pp. 20-37), and by Dr. Holcomb, "Pennsylvania Boroughs" (Johns Hopkins University Studies in Historical and Political Science, IV, pages 135-179.)

be necessary to go still further back—to the time of the Dutch and Swedish settlements in Pennsylvania. In this connection, it will only be necessary to remind the reader that before the country came under the Duke of York's patent, it was dotted over by small Dutch and Swedish villages, which had more or less developed local governments of their own modeled on the institutions of the old country. It is hardly necessary to call attention to the fact that the Swedes, the Dutch and the English were all Teutons, having originally the same ancestors, language and institutions. When they were brought together on the right bank of the Delaware, under the same primitive conditions which originally shaped their common institutions, it was found that their respective local governments were practically identical. The English found a complete local administration with which they could have been unfamiliar only by name. The same was true, to a less extent, when the Dutch overcame the Swedes in 1655. The important financial functions which belonged to the English sheriff, justices and constables were performed by the Swedish schout fiscaal and the Dutch schout, schepens and court messenger—the same officers with different names. It was a happy chance which brought these three peoples together on the soil which passed into the possession of the great Quaker statesman. It was appropriate that the adventurers of three nations should settle on the soil of the Quaker state, and come to live in quiet agreement with each other. That they were able to do so was owing largely to the bonds of kinship, language and institutions.

On the Delaware the Duke of York's laws amounted to but little more than a confirmation of the vil-

lage system of the Dutch and Swedes. The English changed the name of schout to sheriff, schepen to justice, and court messenger to constable.

When a levy had been determined upon by the court, the sheriff was ordered to send out his warrants to the town constables, requiring them to call together the overseers (justices), who should make out a list of all males of sixteen years of age and upwards, and an estimate of real and personal estate. The rates were to be paid to the constable of the town where each was assessed. In default of payment, distress was to be taken by the constable upon goods or cattle; if these were lacking, upon houses and lands; if there was no property available, the body of the delinquent was to be attached. The first movement of the machinery of local taxation began when William Penn changed the local unit—when the county swallowed the township. The king's charter authorized Penn to make laws, "by and with the advice, assent and approbation of the freemen," for raising money for the public use of the province. The Great Law of 1682 provided that no tax should be raised but by a law made for that purpose, by the governor and freemen, and that none should have a longer duration than one year without reënactment.

In 1684 the provincial council passed a resolution declaring that "the charges of the government shall be defrayed by the people of the government,"—a resolution which the people of the government, in later years, had never heard, or had forgotten.

The court of each county had power to assess such taxes as would defray expenses. One-half was laid on lands; one-half was raised by the poll tax, or on males between sixteen and sixty. In 1693 a method

of assessment and collection was adopted which is the direct predecessor of the present system. Any two members of the assembly, within their respective counties, were authorized to call to their assistance three justices of the peace, or other "substantial freeholders," to act as assessors, and they were to appoint receivers or collectors. The constable was to certify to the assessors the names of taxables, and the assessors valued their real and personal estates, with due regard for unprofitable lands. The taxes were paid to the receivers, who reported to the assembly, and paid the money received to the county treasurer. A little later, the justices were authorized to estimate the county charges every year, and to authorize the raising of such amounts as were presented by the grand jury. Money required for the support of the poor was to be first paid.

The law of 1696 was another step forward. When the electors voted for representatives they were also to choose six county assessors. The latter were provided with lists of taxables by the constables. They appointed the collectors and county treasurers. Taxes were paid, as before, to the receivers, whose receipts constituted a sufficient discharge for the assessors. The latter decided all appeals. In 1718 and 1722 two acts were passed for the more effectual raising of county rates and levies. These were reduced into the act of 1724. This legislation provided for the election of three commissioners and six assessors for each county. They were sworn, or affirmed, by two or more justices of the peace, as follows: "Thou shalt well and truly cause the county debts to be speedily adjusted, and the rates and sums of money, by virtue of this act imposed, to be duly and

equally assessed and levied, according to the best of thy skill and knowledge;—and herein thou shalt spare no person for favor or affection, nor grieve any for hatred or ill-will.” The commissioners, under this act, performed the duty, which formerly belonged to the court of sessions, of annually calculating the county debts and charges. They also directed what amounts should be devoted to certain services which the county performed, such as the building of bridges, court houses, prisons, work houses, etc. They issued precepts to the township constables, directing them to furnish lists of taxables, with an account of their real and personal property. The counties were divided into districts, and a collector appointed in each. The commissioners and assessors heard and decided appeals.

This was the most important legislation on this subject until the year 1782.

It would be interesting to follow minutely the history of finance in Pennsylvania during the eighteenth century. Popular rights and the ascendancy of the popular assembly were fought out and won on disputed financial issues. Pennsylvania unconsciously cherished the sentiment of union, which threaded the history of her sister colonies, by what, viewed externally, seem only petty disputes with the governor and provincial council concerning proprietary grants and bills of credit.¹

In 1782 congress demanded “effective supplies” from the states, for carrying on the war. Pennsylvania’s quota was 430,297 pounds and 15 shillings. This sum was proportioned among the counties. The

¹Gordon’s *History of Pennsylvania*, pp. 104–106, 230–234, 291, 321, 414, etc.

commissioners issued warrants to the assessors of the townships, wards and districts which they represented, requiring them to notify the freemen to meet and choose two freeholders to aid the assessors in assessing the required tax; this act supplanted the constable, who formally performed this office. When each county had received notice of the amount to be raised therein, the commissioners were to quota the townships, and the assessors and the two assistants were to levy the same equally and impartially on all persons and on all real and personal property made taxable by this act. The county commissioners were authorized to appoint a freeholder in each township to act as collector. The commissioners had authority to issue warrants to the sheriff or coroner to seize the bodies and estates of delinquents. This act practically established the present county system.

The connection of the state finances with the county system was made in 1831, and at the present time is closer than it ever has been. The following outline of county administration is only concerned with those officers who act as the financial agents of the state.

By the last constitution (1873) it was provided that three commissioners should be elected triennially in each county, beginning with the year 1875, if possible. These commissioners are supposed to represent the minority, as each elector votes for two commissioners. On the issue of the commissioners' precepts to the assessors of the respective townships, wards and districts, the latter must make out and return, within sixty days, a list of the names of all the taxable persons within their jurisdiction, and of all property taxable according to law, together with a

just valuation of the same, which holds until the next triennial assessment, the first triennial assessment dating from 1846. At the time of issuing their precepts to the township assessors, the county commissioners include therein a list of the objects taxable for state purposes, and the state taxes are levied and collected according as the law for the collection of state taxes varies in the several counties. The general supervision of the assessment and collection is entrusted to the commissioners.

The assessors are township officers, and are elected by the people. One assessor and two assistant assessors are elected for the term of one year, the former annually, and the latter triennially, to serve for one year. If the electors in any township fail to choose these officers, the county commissioners may appoint suitable persons in their place.

Property is assessed at the value which it would bring at a *bona fide* sale. Blanks, containing a list of the objects taxable for state purposes, are furnished to the assessors by the county commissioners. These are distributed from house to house and are filled in by the property owner and returned, under oath, within a reasonable time, to the assessor's office. If any one is dissatisfied with his assessment he may appeal to the county commissioners. In certain cases appeal may be taken from the county commissioners' decision to the court of common pleas.

The tax collector is appointed by the county commissioners from two nominations made by the assessor. There is one collector for each ward, district and township. After having given bond to the satisfaction of the county commissioners, the latter issue their warrant to the collector authorizing him

to demand and receive the amount charged to each person. Six weeks after the date of his warrant the collector must pay such moneys as he has received into the hands of the county treasurer, and must make his final settlement within three months after receiving his corrected duplicate.

The county treasurer is elected for two years. In addition to his other duties he receives and accounts for moneys received for the commonwealth from the following sources: Licenses granted to hawkers and peddlers; tavern-keepers' licenses; licenses to retailers of foreign merchandise; exempt militia fines, pamphlet laws and state maps; from taxes assessed for the use of the commonwealth, and from any other source from which, by law, moneys arise for the use of the commonwealth. He reports semi-annually, or oftener, all moneys received for the commonwealth to the auditor general of the state. In July and December of each year he pays over to the state treasurer all moneys due the commonwealth from the above-mentioned sources. In the city and county of Philadelphia the state taxes are collected and paid to the state treasurer by the receiver of taxes. A mercantile appraiser is appointed in each county by the county commissioners, for one year. His duty is to make out a list of all dealers in foreign and domestic merchandise, with the amount of their sales, and return the list to the county treasurer. He must make out a list of all hotel, tavern and saloon keepers who sell liquor, with the amount of their sales. Under the law of March 31st, 1856, the mercantile appraisers claim the right to classify and rate the wholesale liquor dealers.

THE STATE SYSTEM.—The modern administration of state finance dates from the passage, in 1782, of an act establishing the comptroller general's office. This officer had power to settle all valid claims against the commonwealth. All accounts were laid before him, and, after receiving his approval, were transmitted to the executive council. If they proved satisfactory to that body, the president drew warrants for payment upon the state treasurer. In 1789 the office of register general was created. He was appointed by the general assembly. His duty was to check and examine the proceedings of the comptroller general, who was appointed by the supreme executive council. The register general countersigned all warrants drawn on the treasury.

In 1809 the offices of register and comptroller were abolished, and the office of auditor general established. In 1811 an act was passed which is the basis of the present system of public accounts. The auditor general now performs the duties of the register general, and the state treasurer those of the comptroller general. The auditor is elected for a term of three years. He adjusts all accounts between the state and its debtors and creditors, including officers of the revenue. He is invested with power to compel all persons entrusted with public moneys to render him their accounts. All his accounts are revised by the state treasurer. He signs all warrants for the payment of public moneys, and countersigns all receipts for money paid into the treasury. He must annually examine the situation of the treasury, and, if he thinks best, the accounts of the treasurer and the banks in which public moneys are deposited. The auditor is the proper officer

to proceed for the recovery of moneys due to the commonwealth.

The state treasurer is elected for a term of two years. His duties are to keep an account of all moneys received and expended; to make a report monthly to the auditor general of all moneys received and expended; to make all appropriations and payments according to law; to make an annual report to the legislature, with an estimate of the probable receipts and expenditures for the coming year.

The board of revenue commissioners consists of the auditor general, the state treasurer and the secretary of the commonwealth. It must meet at least once in three years, and at Harrisburg. It has power to require from the county commissioners and the commissioners for the revision of taxes in cities, statements of the aggregate value of all property subject to state tax. It is the duty of the board to attempt to equalize and adjust the value of the property submitted as above, so that taxes may fall as equally as possible upon all property taxable for state purposes. Any city or county not satisfied with the adjustment may have a hearing before the board, which must attempt a readjustment if the objections offered seem valid. Any county not satisfied with the final adjustment of the revenue commissioners, may appeal to the court of common pleas of Dauphin county, or, if the court is not in session, to a law judge thereof. If the court sustains the appeal, it certifies the amount of the error to the auditor general and state treasurer, who credit the county with the said amount, to be applied upon any existing

indebtedness of the county on account of the state taxation of personal property.¹

TAXES.

The revenue of the state for the fiscal year of 1886 was \$7,5207,11.13; there was a balance in the treasury from the preceding year of \$1,784,041.86, making a total of \$9,304,752.99. The expenditure for the same year was \$7,203,295.42; \$1.60 per capita. Of this large amount, about eighty-seven per cent. is raised by taxation, at the rate of \$1.58 per capita.

PERSONAL PROPERTY.—The amount of personal property taxable for state purposes, as estimated by the revenue commissioners for 1886, is \$390,749,556.61 (not including pleasure carriages and watches), which is subject to a tax of three mills on the dollar. The law authorizing this tax bears date of 1844. Having been passed during the financial crisis, it was made very comprehensive. Some important modifications have been introduced. The law originally taxed real estate, but in 1867 it was released from taxation for state purposes. In 1885 the tax was reduced, after several variations, to three mills on the dollar. The personal property subject to the three mill tax for state purposes is as follows: all mortgages, money owing by solvent debtors, whether by promissory note, penal or single bill, bond or judgment; all articles of agreement and accounts bearing interest, owned or possessed by any person or persons whatsoever, except obligations given to banks for money loaned, and bank notes; all public loans on stocks, except those issued by the common-

¹See Prof. James' article on the "Public Economy of Pennsylvania" in *Wharton School Annals of Political Science*. No. 1. March, 1885.

wealth or the United States; all money loaned or invested in any other state, and all other moneyed capital in the hands of individual citizens of the state; stages, omnibuses, hacks, and other vehicles used for transporting passengers for hire, whether owned by individuals or companies; annuities over \$200, except those granted by the commonwealth or the United States; and all personal property whatever, except such as is held in trust for religious purposes; shares of stock or weekly deposits in any unincorporated savings fund institution; household furniture, including gold and silver plate, when the value exceeds \$300. Pleasure carriages are taxed one per cent. Gold lever watches are subject to a tax of one dollar each; other gold watches, and silver lever watches, or silver watches of like value, seventy-five cents each; all other watches of the value of \$20, or upwards, fifty cents each.¹ The revenue commissioners estimate that the total amount due from these sources in 1886 was \$1,294,314.41, of which amount only \$674,624.14 was collected within the fiscal year. The tax on personal

¹The following table shows the number of watches of each description, taxed in the city of Philadelphia (population over 847,000), in the years 1883, 1884, 1885. It is incredible that there should only have been 18,990 watches in Philadelphia in 1885. The table is taken from the report of the tax commission of Baltimore (1886), p. 47:

	1883.	1884.	1885.
Gold Watches.....	14,515	18,509	18,390
Silver Watches.....	375	675	543
Other Watches.....	19	74	55
Total... ..	14,909	19,258	18,990

Watches taxable for state purposes were valued, in 1886, at \$63,130 70.

property is assessed and collected by the county officers as above described. The county treasurer receives as compensation, a commission of five per cent. when the amount collected for the state does not exceed \$1,000; when it exceeds that sum and does not exceed \$2000, one per cent. for the excess over the the \$1,000; when it exceeds \$2,000, one-half of one per cent. The calculation is made on the gross amount. Collectors are allowed five per cent. on all moneys collected.

The compensation which the state allows is altogether insufficient to secure proper care in assessment and collection. The county commissioners have no inducement to increase the amount collected for the state. This niggardly arrangement has proved to be poor economy.

COLLATERAL INHERITANCE.—This tax was introduced in 1826, to supply revenue for the internal improvement fund. With the exception of the tax on the recording of various legal papers, it is the oldest state tax in existence. It was formerly collected by the county treasurers, but, in order to make it more efficient, its collection was intrusted to the registers of wills by act of April 10th, 1849. The rate is five per cent. on estates passing to collateral heirs. The revenue from this tax was \$18,686.69 in 1830, \$23,548.91 in 1840, \$102,295.07 in 1850, \$146,846.96 in 1860, and \$662,976.61 in 1886.

TAX ON OFFICES AND PROCESS.—When the net receipts of the prothonotaries or clerks of the supreme court, courts of common pleas, courts of quarter sessions of the peace, orphans' court, or of the register of wills and recorders of deeds

amount to more than \$2,000 per annum, the said officers pay into the state treasury fifty per cent. of the surplus. The auditor general has power to compel these officers to furnish their accounts for settlement, and to compel payment as in other cases. By act of April 6th, 1830, the following officers are directed to receive the following sums for the benefit of the commonwealth: the prothonotaries of the supreme court, exercising appellate jurisdiction, collect for every writ of error issued, or appeal entered, the sum of \$3.50; the prothonotaries of the courts of common pleas and the prothonotaries of the supreme court having original jurisdiction, collect on every original writ issued out of said court (except *habeas corpus*), and on the entry of every amicable action, the sum of fifty cents; on every writ of *certiorari* issued to remove the proceedings of a justice of the peace, or alderman, the sum of fifty cents; on every entry of a judgment where suit has not been previously commenced, fifty cents; and on every transcript of a judgment of a justice of the peace or alderman, twenty-five cents.

The recorders of deeds collect fifty cents on every mortgage, or other instrument offered to be recorded.

The registers of wills collect for the probate of a will, and letters testamentary, fifty cents, and for granting letters of administration, fifty cents. The tax paid upon the entry of judgment confessed for a sum not exceeding one hundred dollars, must be paid by the plaintiff without recourse to the defendant. The recorder of deeds in the city of Philadelphia and the respective counties, collects for the state ten dollars on the commissions of the following officers:

Inspector of salt provisions, health officers, lazaretto physician, port physician, measurers of corn and salt, superintendent of powder magazine, regulator of weights and measures, the inspector of flour, inspector of ground black oak bark, inspector of butter and lard, gaugers of domestic distilled spirits; on the commission of a prothonotary, clerk of oyer and terminer, quarter sessions, orphans' court, mayor's court, register of wills, recorder of deeds, notary public, interpreters of foreign languages, and sheriff of a county, each ten dollars.

The officers who receive these various taxes are required by law to account for them annually to the auditor general. They receive as compensation, three per cent of the amount received and paid over. In 1804 the tax on writs was the only one of these taxes in existence, and it returned in that year \$2,443.48. In 1810 a law was passed taxing the various court officers above mentioned, and the register of wills and the recorder of deeds. In 1820 the revenue from this source was \$16,830.70; in 1830 \$12,907.88; in 1840 \$41,388.59; in 1850, \$59,446.68; in 1886 \$173,956.64.

TAX ON NET EARNINGS OR INCOME.—Every banker and broker, every unincorporated banking and savings institution and express company, and all corporations doing business in the state, and foreign insurance companies, on the first of November of each year, report to the auditor general the amount of their net earnings or income, and within sixty days must pay to the state treasurer a tax of three per cent. upon said earnings or income, under penalty of a fine of ten per cent. of the amount of the tax in case of non-payment. Banks and savings institu-

tions incorporated by the state are exempt from this tax. In 1886 the revenue from this source brought in only \$68,728.93. In that year two hundred and forty-three private bankers and brokers made reports to the auditor general. The names and reports are published in his report for that year, from which this table is extracted:

The number reporting an annual income exceeding \$10,000 is.....	47
Exceeding \$5,000, under \$10,000.....	27
“ 4,000, “ 5,000.....	11
“ 3,000, “ 4,000.....	19
“ 2,000, “ 3,000.....	32
“ 1,000, “ 2,000.....	38
“ 500, “ 1,000.....	25
Less than \$500.....	44

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The auditor also published detailed accounts of twenty-six of these institutions, some of which exhibit astonishing banking methods. To what extent this law is a premium on dishonesty it is, of course, impossible to say. The returns are made under oath, and the amount of perjury must be very great. The tax falls most heavily on the large bankers and brokers of the city of Philadelphia. The forty-one private bankers, who returned net earnings over \$10,000 in 1886, contributed more than sixty-two per cent. of the amount raised under this law. Twenty-six of the forty-one were doing business in Philadelphia. Those returning more than \$5,000 a year contributed seventy-one per cent. of the total.

TAX ON NOTARIES PUBLIC.—Notaries pay \$25 for their commission. They are required to make a return annually, under oath, of the amount of their fees on which they pay a tax of five per cent.

With the exception of licenses the above are all the taxes which are not laid on corporations as such. It will have been observed that they fall on personal property, the receipts of state officers, the descent of property to collateral heirs, on transportation, or on income.

CORPORATION TAXES.—The essential features of the corporation taxes are, that they fall on the incomes of shareholders; that they are paid by the companies directly to the state treasurer and cost nothing for collection; that they insure the taxation of non-residents, and that they fall on those who are best able to bear the burdens of taxation. They are the fairest and most economical means of raising value which the state possesses. In 1886 they contributed 53.3 per cent. of the total revenue from all sources. Corporation stock was first taxed in 1844. Taxes on corporation began to be laid in 1863, and soon became the most important resource of the state. By reason of them, it became possible in 1867 to release real estate from taxation for state purposes.

THE ACT OF JUNE 7TH, 1879.—The corporation tax laws were revised and cast in their present form by act of June 7th, 1879. Under this law no corporation may go into operation in the state without first having its name, the date of its incorporation, the act of assembly or other authority under which it was incorporated, the place of business, the postoffice address, the names of the president, secretary and treasurer, and the amount of capital stock paid in, registered in the auditor general's office, under penalty of a fine of \$500. The president and

treasurer of every incorporated company doing business in the state (except banks, savings institutions and foreign insurance companies) must make an annual report, stating the total authorized capital stock of the company, the number of shares of stock, the par value of each share, the amount of each share paid in, the amount of capital paid in, and the date, amount, and rate per cent. of each and all dividends paid within the year, ending with the first Monday in November. When a company fails to declare a dividend during the year ending as above, or when its dividends are less than six per cent. a year on the par value of the stock, the treasurer and secretary of the company must appraise the capital stock at its actual cash value, and submit their appraisement to the auditor general, with a copy of their oath or affirmation to the truth of the same. The auditor general and state treasurer may also make a valuation if they are dissatisfied with the one returned by the company. If the company, in turn, is dissatisfied with this settlement, they may appeal to the court of common pleas, as in any other case of appeal from the settlement of accounts by the auditor-general and state treasurer.

In case any company does not make the above return by the thirty-first of December in each year, ten per cent is added to the tax due the commonwealth. If the officers of any company intentionally fail for three successive years to make the above return, the charter of the company is forfeited on the governor's proclamation.

TAX ON CAPITAL STOCK.—If the dividends made by any company within the year ending the first Monday in November exceed six per cent. on the par

value of the stock, the tax is one-half of a mill on the capital stock for each one per cent. of dividend declared. If no dividend is declared, or if the dividend does not amount to six per cent. upon the par value of the stock, the tax is three mills upon each dollar of a valuation of the capital stock made as above. That is, if a company has a capital stock of \$1,000,000 it pays an annual tax of \$3,000 under this law until its dividends are more than six per cent., and then an additional \$500 for every one per cent. of dividend. If a company has more than one kind of stock, such as common and preferred, and on one of these a six per cent., or larger, dividend is paid, the tax on that part of the stock which pays six per cent. or more is taxed at the rate of half a mill on the dollar, and that part of the stock which pays no dividend, or less than six per cent., is taxed three mills on the dollar. When any profit is added to the sinking fund it is treated as having been divided amongst the stockholders, and it subjects the capital stock to taxation as if it were a dividend, unless such profit is expressly set aside for the payment of debts.

TAX ON TRANSPORTATION COMPANIES.—Transportation companies organized as limited partnerships, and all other limited partnerships and joint stock companies, unless organized for manufacturing or mercantile purposes, are subject to a half mill and three mill tax, as above described. For purposes of taxation interests in limited partnerships are deemed to be capital stock, and any division of profits to the owners of such interests are taxed as dividends.

TAX ON GROSS RECEIPTS.—Every company or limited partnership, incorporated by the state or

doing business within its borders, engaged in any way in the transportation of freight and passengers; and every telegraph, express, palace car and sleeping car company, incorporated or unincorporated, pays to the state treasurer an annual tax of eight-tenths of one per cent. on its gross receipts. This tax is payable semi-annually, on the last day of January and July. Sworn returns are made to the auditor-general. If the return is not made within thirty days after the tax is due, ten per cent. is added to the amount of the tax. When any company is engaged in mining, purchasing or selling coal, the receipts from such sources are not taxed, but every company so engaged must keep an account of the coal handled and charge itself with the transportation thereof, as if the coal were regular freight, and at the same rates, and the sums so charged are returned to the auditor general and taxed as a part of the gross receipts.

TAX ON INSURANCE COMPANIES.—Insurance companies, except those doing business on the mutual plan, without any capital stock or accumulated reserve, and mutual beneficial associations, whose fund is made up of weekly or monthly contributions and the accumulated interest of the same, are taxed eight-tenths of one per cent. upon the annual amount of their gross premiums.

TAX ON BANK, SAFE DEPOSIT AND TRUST COMPANIES STOCK.—By the law of June 30th, 1880, shares of stock in banking and savings institutions, and safe deposit, guarantee, surety and real estate, title insurance or trust companies, are made taxable for state purposes at the rate of three mills on the

dollar. But the above named corporations may elect to collect from the shareholders a tax of six-tenths of one per cent. upon the par value of the stock and pay the amount into the state treasury. In this case, so much of the shares, capital and profits as are not invested in real estate are exempt from all other taxation under the laws of the commonwealth.

TAX ON LOANS.—All public loans or stock, except those issued by the commonwealth or the United States, and loans held by corporations, are taxable at the rate of four mills on the dollar. In 1886, one hundred and ninety-three boroughs, thirty-four counties, eighteen cities and eighteen companies paid this tax, deducting it from the amount due their creditors. The companies contributed only \$2,056.48, and the municipalities \$262,842.81.

BONUS ON CHARTERS.—Before any company may go into operation it must pay the first of two equal installments of a bonus of one-fourth of one per cent. upon the amount of capital stock which it is authorized by its charter to have. An equal amount is exacted when the capital is increased.

TAX ON FOREIGN INSURANCE COMPANIES.—Insurance companies organized under the laws of any other state or county pay an annual tax of twenty-five dollars to the insurance commissioner.

LICENSES.

Licenses are the oldest source of revenue in the state, and in consequence of the great amount of

legislation which has been passed from time to time regulating them, it is somewhat difficult to give the system in brief outline. Hardly any one knows exactly what laws are in force and what are not. This has been found to be especially true of those who pay the licenses and those who collect them.

AUCTIONEERS.—Auctioneers are rated according to the amount of their sales, and are required to take out an annual license at the rate of \$3,000 for the first class, and \$200 for the fifth and lowest class. In several counties sales at auction are prohibited by law. In Philadelphia the uniform rate is five hundred dollars.

BILLIARD TABLES AND BOWLING ALLEYS.—A license to keep a billiard room, bowling saloon or ten-pin alley, in the city and county of Philadelphia, and in other cities of the state, costs one hundred dollars a year, and in the counties thirty dollars a year. In addition, keepers of such resorts are annually taxed one hundred dollars for the first billiard table or alley, and ten dollars for each additional table or alley in each establishment.

BREWERIES AND DISTILLERIES—Brewers and distillers are classified, and pay an annual tax ranging from two hundred dollars in the highest class to fifteen dollars in the ninth and lowest class.

BROKERS.—Stock, exchange and bill brokers in the city and county of Philadelphia pay a license fee of one hundred dollars a year; in Pittsburgh, or Alle-

ghany county, fifty dollars; in any other county, thirty dollars. All brokers pay a tax on their licenses of three per cent. of their profits.

RESTAURANTS AND EATING HOUSES.—Beer houses, restaurants, eating houses and oyster cellars supplying malt liquors, or any kind of refreshment, are taxed according to their sales, the highest class paying \$200 a year on sales of \$20,000 and upwards, the lowest class paying five dollars a year on annual sales between \$500 and \$1,000.

SALE OF LIQUORS.—Wholesale dealers (selling more than a quart), pay an annual license fee ranging from four hundred and eighty dollars on sales of \$300,000 and over, to twenty-five dollars on sales of \$5,000. Retailers pay four hundred dollars on sales of \$300,000 and over. The lowest license is twenty-five dollars. Licenses for taverns, hotels, and the like, are issued at the rate of seven hundred dollars for yearly sales of \$10,000 or more. No license is issued for less than fifty dollars.

PEDDLERS.—A peddler's license to travel on foot is eight dollars a year; with one horse and a wagon, forty dollars; with two horses and a wagon, fifty dollars a year.

THEATRES, CIRCUSES AND MENAGERIES.—The price of a theatre, circus or museum license for the city and county of Philadelphia is five hundred dollars for one year; for Alleghany county two hundred dollars; for every other county fifty dollars. The price of menagerie license in Philadelphia is two

hundred dollars; in Alleghany county, one hundred dollars; every other county, thirty dollars.¹

¹The following table gives the principal treasury receipts for the year 1886. It is taken from the auditor general's report for that year:

Tax on corporation stock and limited partnership....	\$1,729,029 99
“ gross receipts of corporations.....	1,210,582 60
“ gross premiums.....	41,176 78
“ stock of banks, safe deposit and trust companies.....	415,865 07
“ foreign insurance companies.....	334,855 64
“ loans.....	264,899 29
“ net earnings or income.....	68,728 93
“ personal property.....	674,624 14
“ collateral inheritances.....	662,976 61
“ writs, wills, deeds, etc.....	118,461 76
“ sale of fertilizers.....	6,290 00
“ gross receipts of notaries public.....	2,803 28
Notaries public commissions.....	10,425 00
Fees of public officers.....	55,494 88
Tavern licenses.....	444,548 34
Retailers' licenses.....	301,976 78
Eating house licenses.....	49,085 30
Wholesale liquor licenses.....	43,007 96
Brewers' licenses.....	17,485 02
Bottlers' licenses.....	5,439 20
Billiard licenses.....	30,649 92
Brokers' licenses.....	25,378 92
Auctioneers' licenses.....	17,017 85
Peddlers' licenses.....	1,920 19
Theatre, circus, etc., licenses.....	10,851 74
Bonus on charters.....	119,070 11
Alleghany Valley Railroad Company.....	217,500 00
United States government.....	149,000 00
Pennsylvania Railroad commutation of tonnage tax...	460,000 00
Miscellaneous.....	31,563 77
Total.....	\$7,520,711 13

THE REVENUE ACT OF JUNE 30, 1885.¹

The object of this act was to reach more effectively personal property in the shape of moneyed capital, which was bearing far too small a proportion of the burden of taxation. The valuation of personal property returned for state and local taxation is as follows:

Corporation stock.....	\$675,872,763 33
" loans.....	237,088,544 00
National bank stock.....	61,261,140 00
State " " 	8,161,954 00
County loans.....	70,154,347 00
Municipal loans.....	15,920,458 80
Money at interest	395,355,555 00
Total... ..	\$1,463,814,762 13

County, road, school, special and state taxes levied on personal property amount, it is estimated, to about \$5,500,000. The distribution is as follows:

Tax on Corporation stock.....	\$2,037,618 29
" Gross receipts of corporations...	913,308 14
" Loans of corporations.....	711,265 63
" Gross premiums of insurance companies	39,158 93
" National and state bank stock...	363,273 80
" Municipal loans.....	258,244 68
" Money at interest.....	1,186,066 66
	\$5,508,936 13

The total real estate is estimated at \$1,697,202,153, which pays taxes for all purposes to the amount of \$30,395,350.08. When real estate was exempted from taxation for state purposes in 1867 it was intended that it should bear all the burdens of local taxation. The figures given above show how weighty the local burdens have become. Real estate

¹Aud. Gen. Rep., 1886.

in Philadelphia bears a burden of taxation nearly twice as large as that borne by all the personal property in the state. It is estimated that if personal property paid the same mill rate as real estate, the tax would amount to more than \$26,000,000 a year—\$20,500,000 more than it now pays.

It is evident that at least some equalization is necessary. The act of June 30th, 1885, is not as effective as is desirable, but when it comes to be better understood the results will probably be more satisfactory. By this legislation the rate on personal property for state purposes was reduced from four to three mills on the dollar, and mortgages, and all other evidences of debt, all articles of agreement, or accounts, bearing interest, and all public loans, are exempt from all taxation, except for state purposes.

The increase of safe deposit, guarantee, surety and real estate title insurance, and trust companies, offered a convenient source of revenue, so they were taxed, by this act, three mills on each dollar of capital stock. By this act it is lawful for the above-named corporations, and for banks, to collect from the shareholders, at the time of interest payments, six-tenths of one per cent. upon the par value of the stock, in lieu of all other taxation. This exemption does not extend to real estate.

The tenth section of this act is designed to reach evidences of debt which had hitherto almost entirely escaped from taxation. County commissioners and boards of revision have power to appoint some one to examine the docketts of the recorders of deeds, mortgages, etc., from the year 1852, and the docketts of the prothonotaries and clerks of the court of common pleas from the year 1850, and to report the

number of unsatisfied evidences of debt and the name of the parties thereto. This information is filed in the office of the county commissioners or the board of revision of taxes. Every recorder of deeds is now required to keep a daily record of mortgages or other articles of agreement given to secure the payment of money. This record is filed every day in the office of the county commissioners or the boards of revision. Prothonotaries and clerks of common pleas are required to keep a daily record of all instruments entered of record to secure debts, and to file the record daily as above. At the time for making the annual or triennial assessment, the county commissioners, or the board of revision of taxes, furnish the assessors with statements, compiled from the daily reports, showing the number and amount of mortgages, etc., held in each township. Taxes upon all manufacturing corporations, except those engaged in making malt, spirituous or vinous liquors, or in the manufacture of gas, were repealed.

This act is likely to prove effective in increasing the revenue of the state, although at present it is very unpopular. Its passage was opposed by the capitalists, its enforcement has been hindered by injunctions, and its constitutionality has been questioned, though this point has been settled in the supreme court, and its constitutionality, as to the main features, is undoubted. The act of 1885 is practically that of 1844; it is only intended to supply the defects of the earlier personal property tax law. During the first year of its trial the act in question worked admirably. In 1885 the moneyed capital of the state subject to tax was returned at \$145,286,762; 1886 it was \$395,355,555, and this, it is most proba-

ble, does not include mortgages held by corporations. The state has never been successful in forcing corporations to return their mortgages. Since the passage of the act of 1885 borrowers have been compelled to agree to a stipulation that they should pay all taxes upon the amount loaned.

CONSTITUTIONAL PROVISIONS CONCERNING FINANCE AND TAXATION.

The first constitutional provision regarding taxation is to be found in the frame of government of 1683. Section four of the "Laws agreed upon in England" provided "That no money or goods shall be raised upon, or paid by, any of the people of this province by way of a public tax, custom or contribution, but by a law for that purpose made; and whoever shall levy, collect, or pay any money or goods contrary thereunto shall be held a public enemy to the province and a betrayer of the liberties of the people thereof." This fundamental measure was embodied in different form in the declaration of rights of the constitution of 1776. "Every member of society," according to this document, "hath a right to be protected in the employment of life, liberty and property, and therefore is bound to contribute his proportion towards the exercise of that protection, and yield his personal service when necessary, or an equivalent thereto; but no part of a man's property can be justly taken from him or applied to public uses without his own consent, or that of his legal representatives.

Section forty-one of the constitution of 1776 reminds us of Adam Smith's fourth canon of taxation. The constitution says :

"No public tax, custom or contribution shall be imposed upon, or paid by, the people of this state, except by a law for that purpose; and before any law be made for raising it, the purpose for which any tax is to be raised ought to appear clearly to the legislature to be of more service to the community than the money would be if not collected, which being well observed, taxes can never be burthens."

The constitution of 1790 made no mention of taxation, either in the body of the constitution or in the bill of rights, but it provided that all bills for raising revenue should originate in the House of Representatives, giving the senate power of amendment, as in other bills.

The constitution of 1838 contained no provision regarding taxation or finance, but in 1857 an additional article was embodied, which was the parent of Article IV of the constitution of 1873. The amendment of 1857 limited the amount of debt which might be contracted to meet deficiencies in revenue, or to meet expenses not regularly provided for, to \$750,000. This put an end forever to the disgraceful policy of borrowing instead of taxing. Section two of Article XI, as the new article was numbered, authorized the contraction of debts to repel invasion, suppress insurrection, defend the state in war, or to redeem (refund) the outstanding indebtedness of the state.¹ Section three forbade the contraction of any debt whatever, except for the purposes above mentioned. Section four ordered the legislature to create

¹This is undoubtedly bad, as it compels legislatures to transfer to private corporations nearly all great public improvements, whether suitable for private enterprise or not. Consult on this point the instructive remarks of Professor Henry C. Adams, in his work, "Public Debts," Part I, Chapter V, and Part III, Chapter IV. Compare also his monograph, "Relation of the State to Industrial Action," in this series.

immediately a sinking fund sufficient to pay interest on the debt, and to reduce the principal by at least \$250,000 per annum. The application of the revenues of the sinking fund were limited to the extinguishment of the public debt, except in case of war, invasion or insurrection, until the debt had been reduced below \$5,000,000. Section four forbade the state from ever again entering into any illegitimate enterprise: "The credit of the commonwealth shall not in any manner or event be pledged or loaned to any individual, company, corporation or association, nor shall the commonwealth hereafter become a joint owner or stockholder in any company, association or corporation." Section six forbade the state to assume the indebtedness of any county, city, borough or township, or any corporation, unless such debt had been contracted for war purposes, to repel invasion, suppress domestic insurrection, or to assist the state in the discharge of any portion of the public debt. Section seven reads: "The legislature shall not authorize any county, city, borough, township or corporated district, by virtue of a vote of its citizens or otherwise, to become a stockholder in any company, association or corporation, or to obtain money for or loan its credit to any corporation, association, institution or party."

These provisions were reëmbodied in the constitution of 1873. The constitution of the state as it now stands goes even too far in limiting, by the organic law, legislative control over the resources of the state. The disgraceful outcome of the public improvement policy would have been forestalled had some curtailment of the borrowing power been contained in the constitutions of 1790 and 1838.

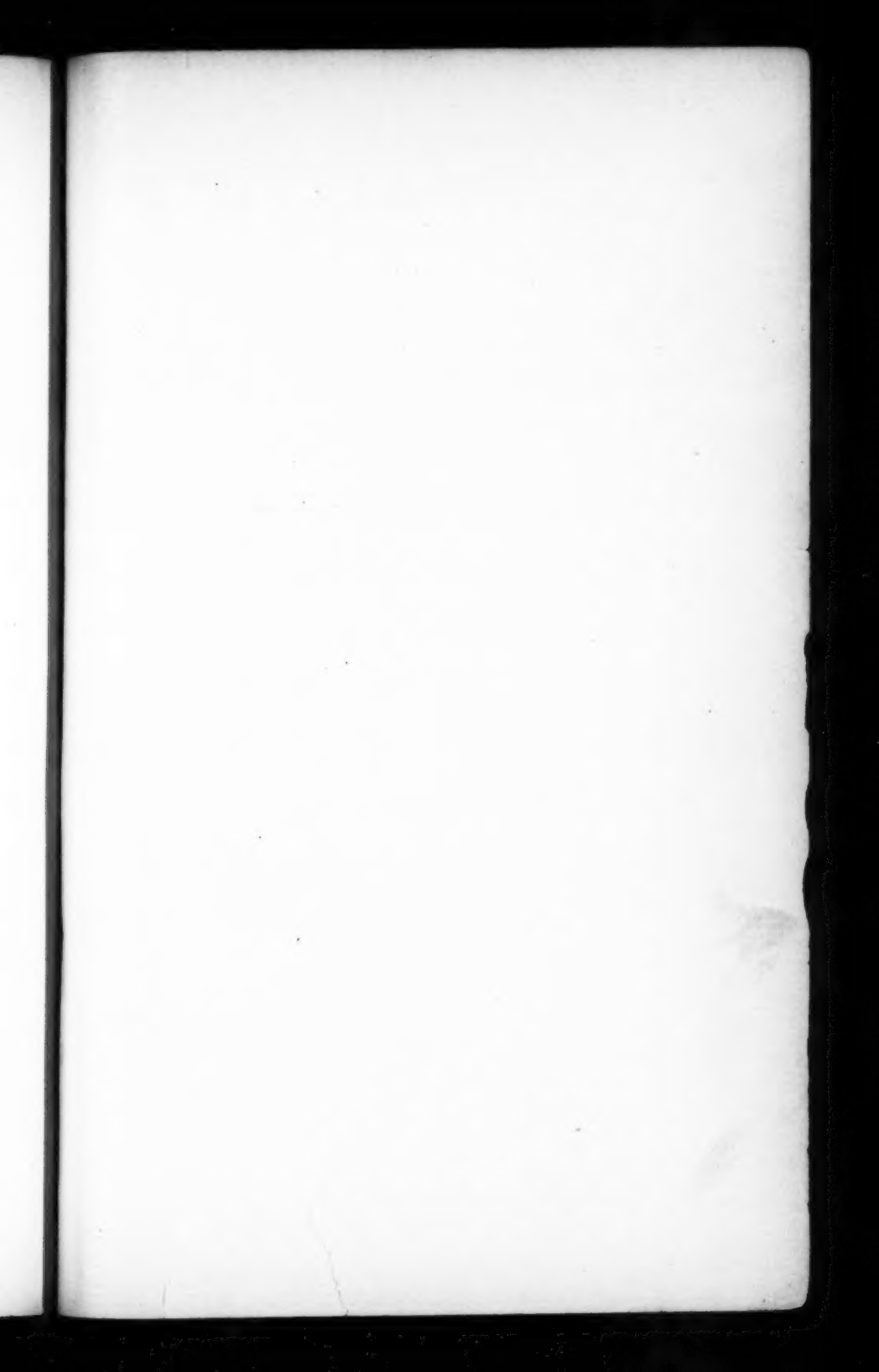
Section 1 of Article IX of the constitution of 1873 provided that "all taxes shall be uniform upon the same class of subjects within the territorial limits of the authority levying the tax, and shall be levied and collected under general laws," but the general assembly may exempt property used for the good of the community: actual places of religious worship, places of burial not used for private or corporate profit, and charitable institutions. The power to tax corporations may not be suspended by any contract or grant to which the state is a party. The debt of any county, city, borough, township, school district, or other municipality or incorporated district, may not exceed seven per cent. upon the assessed valuation of the taxable property therein. No such municipality may incur any debt, or increase its debt to more than two per cent. of its assessed valuation, without the assent of the electors at a public meeting. Any city whose debt at the time of the adoption of the constitution of 1873 exceeded seven per cent. of its assessed valuation, may be authorized by law "to increase the same three per centum in the aggregate, at any one time, upon such valuation."

Provision was made for the continuance of the sinking fund. A necessary reserve, limited to the amount required for current expenses, must be kept, as provided by law; all moneys over and above this reserve are to be used in the payment of the state debt, either directly or through the sinking fund. The moneys of the sinking fund may never be invested in, or loaned upon any security, except the bonds of the United States.

Any public official, or member of the legislature,

using public moneys illegally, or making profit out of them, is guilty of a misdemeanor, and part of his punishment is disqualification to hold office for a period of not less than five years.

Under Article IV, section 16, the governor has power to veto any item, or items, of any appropriation bill.



EXPLANATION OF DIAGRAM.

[Five squares counted vertically stand for \$250,000; counted to the right, five squares are equivalent to one year.]

————— Expenditure on the public works. The sums which this line represents were paid to the commissioners of the internal improvement fund, who applied them in the payment of interest on the debt contracted for public improvements, and turned the balance over to the canal commissioners, who applied it to the expenses of construction and repairs. This line, therefore, until 1842, includes both interest on the public improvement debt and the cost of maintaining and constructing the public works.

----- Loans. Until 1836 this line almost coincides with the one representing the expenses of the public works. In 1836 borrowing ceased until the surplus revenue and the bank bonuses were spent. In 1842 borrowing practically stopped.

————— All revenue with the exception of loans.

~~~~~ Interest on the debt computed at five per cent. In the latter half of 1842, in 1843 and 1844, no interest was paid, but the line is continued until 1845. After 1844 the line represents the amount of interest actually paid.

..... Revenue from taxation. It will be observed that the revenue from taxation did not amount to more than the interest on the public debt until 1846.

----- Gross revenue from the public works.





